

**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**COUNTY OF OTSEGO**

**December 31, 2003**

Local Audit and Finance Division  
Bureau of Local Government Services

OTSEGO COUNTY  
BOARD OF COMMISSIONERS

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Chairman

Paul Beachnau  
Vice Chairman

Clark Bates  
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Jeff Garfield

Kenneth Glasser  
Doug Johnson  
Paul Liss

COURT JUDGES

PROBATE JUDGE

Michael Cooper

CIRCUIT JUDGES

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Chief Judge

Dennis F. Murphy

DISTRICT JUDGES

Patricia A. Morse

OTHER ELECTED OFFICIALS

Evelyn M. Pratt  
Clerk/Register of Deeds

Diann Axford  
Treasurer

James D. McBride  
Sheriff

Kevin Hesselink  
Prosecuting Attorney

Denise Koning  
Appointed County Administrator

COUNTY POPULATION--2000  
23,301

STATE EQUALIZED VALUATION--2003  
\$1,349,292,168



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

June 26, 2004

County Board of Commissioners  
Otsego County Courthouse  
225 West Main Street  
Gaylord, Michigan 49735

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Otsego County, Michigan, as of and for the year ended December 31, 2003, which collectively comprise the county's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Otsego County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Commission on Aging (special revenue fund type) which represents 1.97 percent and 6.04 percent, respectively, of the assets and revenues of the governmental funds. We did not audit the financial statements of the Road Commission (special revenue discretely presented component unit) which represents 83.78 percent and 65.38 percent, respectively, of the assets and revenues of the component units. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Commission on Aging and Road Commission, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note Q, the county adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of January 1, 2003.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated June 26, 2004, on our consideration of the County of Otsego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1-11 and the Budgetary Comparisons for Major Funds on pages 68-71 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations; and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements, Schedule 1 and Schedule 2, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining, individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. Application of State Block Grant Funds (Schedule 1 and 2) have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# OTSEGO COUNTY

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## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Otsego, we offer readers of the county's financial statements this narrative overview and analysis of the financial activities of the county for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

During fiscal year 2003, the county experienced significant changes in both management personnel and organizational structure. The county hired an administrator, a finance director, and a human resources director during the course of the year. The initial budgetary projections were developed by managerial personnel other than those who proposed final budgetary amendments.

#### Financial Highlights

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$22,215,887 (*net assets*). Of this amount, \$6,039,973 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the County of Otsego's governmental funds reported combined ending net assets of \$5,940,758.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Otsego County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Otsego County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing how the Otsego County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (e.g., uncollected taxes and earned but unused vacation leave)

## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of Otsego County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). *Governmental activities* include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. *Business-type activities* include delinquent tax collections, public transit, global positioning system, imaging, plat books and an operation of an inmate commissary.

The county's governmental activities also include the blending of legally separate entities (component units) for which the county is financially accountable. The *component units* include the Otsego County Building Authority, Otsego County Road Commission, Otsego County Sportsplex, Otsego County Ambulance Corporation, Otsego County Commission on Aging, University Center at Gaylord. Of the entities, the Otsego County Building Authority, and the Commission on Aging, while legally separate, function for all practical purposes as departments of the County and, therefore, have been included as integral parts of the primary government. Financial information for the balance of the component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from the component unit's office as stated in Note A.

**Fund Financial Statements.** A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Otsego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Otsego County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental Funds.* Most of the county's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the county's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.



## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The County of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, public improvement, housing commission, and airport construction funds, each of which is considered to be a major fund. Data for the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

*Proprietary Funds.* The county maintains only one of the two different types of proprietary funds: enterprise and internal service. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The county uses enterprise funds to account for its delinquent tax, public transit, global positioning system, imaging, plat book, and jail commissary operations. *Internal service funds* are used to accumulate and allocate costs internally among the county's various functions. Otsego County has no internal service funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only with more detail. The proprietary fund financial statements provide separate information for each enterprise fund.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the county's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Otsego County's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds and combining component unit funds are presented immediately following the required supplementary information.

#### **Government-Wide Financial Analysis**

The government-wide financial analysis focuses on the net assets and changes in net assets of the governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the county's assets exceeded its liabilities by \$22,215,887 at December 31, 2003.

## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

*[Because this is the first year of implementation of Government Account Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.]*

#### County of Otsego's Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and Other Assets	\$ 13,003,648	\$ 6,176,300	\$ 19,179,948
Net Capital Assets	<u>14,945,545</u>	<u>1,345,277</u>	<u>16,290,822</u>
Total Assets	<u>27,949,193</u>	<u>7,521,577</u>	<u>35,470,770</u>
Long-Term Liabilities Outstanding	11,075,038	200,000	11,275,038
Other Liabilities	<u>1,712,561</u>	<u>267,284</u>	<u>1,979,845</u>
Total Liabilities	<u>12,787,599</u>	<u>467,284</u>	<u>13,254,883</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	7,928,529	1,045,277	8,973,806
Restricted	7,202,108	-	7,202,108
Unrestricted	<u>30,957</u>	<u>6,009,016</u>	<u>6,039,973</u>
Total Net Assets	<u>\$ 15,161,594</u>	<u>\$ 7,054,293</u>	<u>\$ 22,215,887</u>

The largest portion of the county's net assets, \$8,973,806 (40 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the county's net assets, \$6,039,973 (27 percent), represents *unrestricted net assets* that may be used to meet the county's ongoing obligations to citizens and creditors.

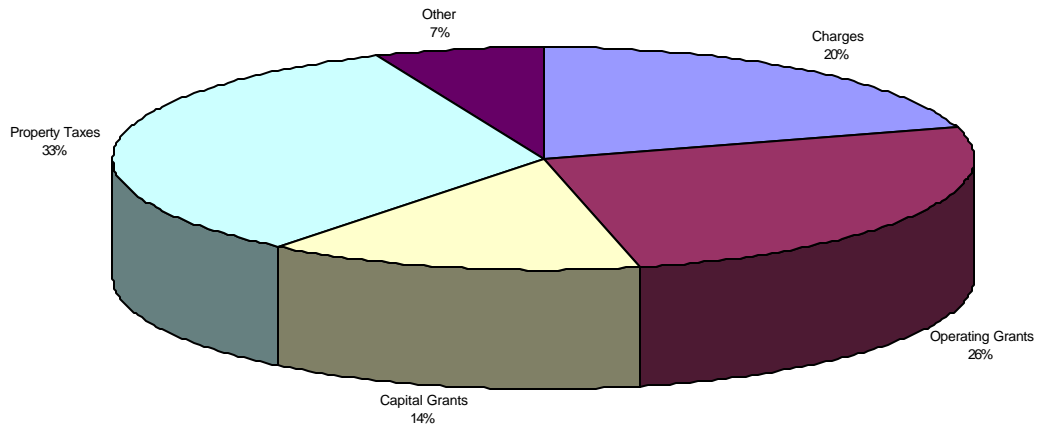
The remaining balance of \$7,202,108, (32 percent), represents resources that are subject to external restrictions on how they may be used.

## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

At the end of the current fiscal year, the county is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Revenue By Source - Governmental Activities**



**COUNTY OF OTSEGO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**County of Otsego's Changes in Net Assets**

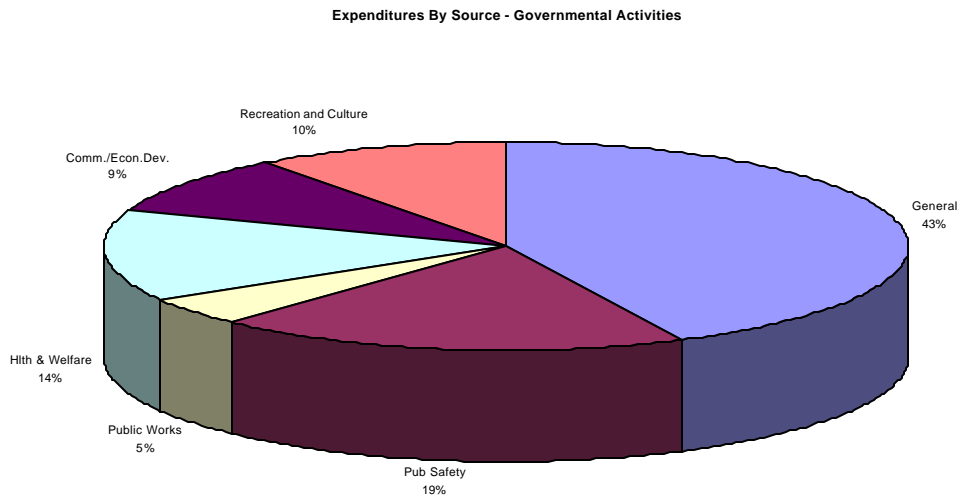
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenue			
Program Revenue			
Charges for Services	\$ 3,970,413	\$ 1,005,582	\$ 4,975,995
Operating Grants and Contributions	5,017,447	1,208,371	6,225,818
Capital Grants and Contributions	2,762,118	371,080	3,133,198
General Revenue			
Property Taxes	6,362,429	228,230	6,590,659
Other	<u>699,658</u>	<u>79,175</u>	<u>778,833</u>
Total Revenue	<u>18,812,065</u>	<u>2,892,438</u>	<u>21,704,503</u>
Expenses			
General Government	6,815,014		6,815,014
Public Safety	3,035,791		3,035,791
Public Works	726,044		726,044
Health and Welfare	2,270,516		2,270,516
Community and Economic Development	1,428,235		1,428,235
Recreation and Culture	1,653,851		1,653,851
Other Expenditures	672,272		672,272
Interest and Fiscal Fees	321,939		321,939
Delinquent Tax		11,416	11,416
Public Transit		1,915,154	1,915,154
Non-Major Enterprise Funds	<u>                    </u>	<u>148,010</u>	<u>148,010</u>
Total Expenses	<u>16,923,662</u>	<u>2,074,580</u>	<u>18,998,242</u>
Increase (Decrease) in Net Assets Before Transfers	1,888,403	817,858	2,706,261
Transfers	<u>560,814</u>	<u>5,112</u>	<u>565,926</u>
Change in Net Assets	2,449,217	822,970	3,272,187
Net Assets--Beginning of Year	<u>12,712,377</u>	<u>6,231,323</u>	<u>18,943,700</u>
Net Assets--End of Year	<u>\$ 15,161,594</u>	<u>\$ 7,054,293</u>	<u>\$ 22,215,887</u>

The county's net assets increased by \$3,272,187 during the current fiscal year. This increase is attributable to growth in property taxes and an increase in the charges for services that were received.

**Governmental Activities.** Governmental activities increased the county's net assets by \$2,449,217, accounting for 74.8 percent of the total growth in the net assets of the county.

# COUNTY OF OTSEGO

## MANAGEMENT'S DISCUSSION AND ANALYSIS



**Business-Type Activities.** Business-type activities increased the county's net assets by \$822,970. The increase is primarily operating grants in the public transit.

### Financial Analysis of the County's Funds

As noted earlier, Otsego County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds.* The focus of the county's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the county's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At year end of the current fiscal year, the county's governmental funds reported combined ending fund balance of \$5,940,759, a decrease of \$701,624 when compared with the prior year. This is primarily attributable to decreases in revenue sharing, decreases in State and Federal grant funding, decreases in charge for service fees, sharp increases in both employee and retiree health benefits and unanticipated expenditures for inmate health care in the General Fund. Of the fund balance amount, \$148,957 constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The General Fund is the chief operating fund of the county. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$148,957, with a total fund balance of \$322,589. Unreserved fund balance represents approximately 1.4 percent of total General Fund expenditures (Total Expenditures and Other Financing Uses--Operating Transfers Out). The fund balance of the County's General Fund decreased by \$599,264 during the current fiscal year. This is primarily attributable to decreases in revenue sharing, decreases in State and Federal grant funding, decreases in charge for service fees, sharp increases in both employee and retiree health benefits and unanticipated expenditures for inmate health care.

The County's Public Improvement Fund had a total fund balance of \$2,239,239 as a result of minimal infrastructure improvements during the fiscal year, and by state law, is restricted to acquiring, constructing, extending, altering, repairing or equipping public improvements or public buildings.

The County's Housing Commission had an ending fund balance of \$188,313, all of which was reserved for housing projects.

The County's Airport Construction Fund had an ending fund balance of \$98,667, all of which was reserved for capital projects at the airport.

*Proprietary Funds.* The county's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. (Note: There are no internal service funds.)

Unrestricted net assets of the enterprise funds at year-end amounted to \$6,009,016. The enterprise funds had an increase in net assets for the year of \$822,970.

#### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets for revenue (revenue and other financing sources) resulted in a 78 percent increase, (\$4,537,493 increase in appropriations).

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 98 percent increase, (\$5,201,489 increase in appropriations).

Due to legal issues surrounding the 46<sup>th</sup> Trial Courts, prior management chose not to include the court system in the original General Appropriations Act and made monthly budget amendments to account for court system activity. This accounts for most of the large variance between original and final budgets.

## COUNTY OF OTSEGO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall during the year, General Fund revenues (revenue and other financing sources) were below the budgetary estimates by \$584,551 or 5.6%. Noticeable variances were the result of lower than anticipated Federal and State grant revenues, lower than anticipated collection of inmate reimbursements, expenditures (expenditures and other financing uses) were minimally below the budgetary estimates overall (\$119,783 or 1.1%) and the greatest variance was due to over \$200,000 in unanticipated inmate health care expenses. Other variances included self-funded health care expenses that were over 20% greater than anticipated. This resulted in an actual decrease in fund balance of \$599,264 as compared to budgeted (anticipated) use of fund balance of \$134,496.

Budget-to-actual comparisons for the vast majority of the county's special revenue funds were favorable.

#### Capital Asset and Debt Administration

**Capital Assets.** The county's investment in capital assets for its governmental activities as of December 31, 2003, amounted to \$13,338,529, (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment, and vehicular equipment. The total decrease in the county's investment in capital assets for the current fiscal year was approximately 5 percent.

Major capital asset events during the current fiscal year included the following:

- Over \$70,000 for new a phone system
- \$2,380,901 to reconstruct runway 9/27 at the Airport
- \$165,299 to purchase an Oshkosh snowplow at the Airport
- Various building additions and improvements over \$309,860

#### County of Otsego's Capital Assets (Net of Depreciation)

Activities	<u>Governmental</u>
Land and Improvements	\$ 401,154
Construction in Progress	301,386
Buildings and Improvements	6,917,349
Furniture and Fixtures	107,416
Machinery and Equipment	1,349,472
Vehicular Equipment	444,522
Infrastructure	<u>3,817,228</u>
Total	<u>\$ 13,338,527</u>

Additional information on the county's capital assets can be found in Note F of this report.

**COUNTY OF OTSEGO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-Term Debt.** Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the county had total bonded debt outstanding of \$4,745,000.

**County of Otsego's Outstanding Debt**  
**General Obligation**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
General Obligation Bonds	<u>\$ 5,410,000</u>		<u>\$ 5,410,000</u>
Total	<u><u>\$ 5,410,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,410,000</u></u>

The county's total debt decreased by \$641,122 (12 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the county is \$123,763,735, which is significantly in excess of the county's outstanding general obligation debt.

Additional information on the county's long-term debt can be found in Note H of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the county's 2004 budget:

- Property tax revenues are projected to increase 5 percent in 2004.
- Inflationary trends in the region compare favorably to national indices.
- The worsening state economy will result in decreasing state funding. The real effects of the decreases, particularly in State Revenue Sharing are yet to be known.

Highlights of the 2004 budget are as follows:

- The county made certain technological enhancements by implementing a new phone system, investing in new accounting and tax system information technologies, and outsourcing information technology management that resulted in staff reductions that affected 4 positions and reduced \$181,703 in annual payroll expenses. Additionally, investment in information technologies permitted certain departments to maintain current staffing levels (instead of utilizing the projected staffing level increase).



## **COUNTY OF OTSEGO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

- The county participated in a consortium of governmental units (schools, community colleges, etc) to develop a fiber-optic metropolitan area network. The investment resulted in reduced reliance on third parties for communications transport (T-1 connections, internal phone connections, etc.) and improved communications quality and efficiency (reduction in number of servers, etc.). Estimated savings, exclusive of switch-board operator included in annual payroll expense savings, totals over \$50,000 annually.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$148,957. The general rule of thumb is that fund balances can be used to help government weather bad times, but should not be used as a means of funding routine operations. The continuing decline in State and Federal revenues will force management and the commissioners to evaluate further service reductions to arrest the decrease and implement a plan to restore fund balance in the General Fund to a reasonable level.

#### **Contacting the County's Financial Management**

This financial report is designed to provide a general overview of the county's finances to all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to County Administrator, County of Otsego, 225 West Main Street, Gaylord, Michigan 49735.

**OTSEGO COUNTY**  
**STATEMENT OF NET ASSETS**  
**December 31, 2003**

**EXHIBIT A**

	<b>PRIMARY GOVERNMENT</b>			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<b><u>ASSETS</u></b>				
Current Assets				
Cash and Cash Equivalents	\$ 1,912,308	\$ 1,488,269	\$ 3,400,577	\$ 238,778
Investments	3,626,700	3,214,096	6,840,796	1,192,400
Receivables (Net)				
Taxes--Delinquent	5,925,035	1,174,638	7,099,673	1,484,534
Accounts	181,064	41,467	222,531	261,399
Due From Other Funds--Primary Government	207,623		207,623	
Due From Other Funds--Component Units	1,968		1,968	
Due From State	496,984	153,009	649,993	
Due From Local Units of Governments	243,136	94,821	337,957	736,938
Inventories	14,294		14,294	538,794
Prepaid Insurance	9,753		9,753	
Advance to Other Funds--Primary Government	100,000		100,000	
Advance to Other Funds--Component Units	20,325		20,325	
Total Current Assets	12,739,190	6,166,300	18,905,490	4,452,843
Noncurrent Assets				
Capital Assets, Net of Accumulated Depreciation	13,338,529	1,345,277	14,683,806	14,803,494
Land Contracts	1,607,016		1,607,016	
Long-Term Advances to				
Other Funds--Primary Government	198,333	10,000	208,333	
Other Funds--Component Units	66,125	-	66,125	
Total Noncurrent Assets	15,210,003	1,355,277	16,565,280	14,803,494
Total Assets	\$ 27,949,193	\$ 7,521,577	\$ 35,470,770	\$ 19,256,337
<b><u>LIABILITIES AND NET ASSETS</u></b>				
Current Liabilities				
Accounts Payable	\$ 729,695	\$ 62,666	\$ 792,361	\$ 86,676
Accrued Liabilities	54,755	43,658	98,413	128,372
Due to Other Funds--Primary Government	139,545	178	139,723	1,968
Advances From Primary Government	-	100,000	100,000	20,325
Advances From State			-	312,698
Due to Local Units	51,273		51,273	
Deferred Revenue			-	1,484,534
Interest Payable	72,293	60,782	133,075	-
Current Portion of Long-Term Debt	665,000		665,000	75,492
Total Current Liabilities	1,712,561	267,284	1,979,845	2,110,065

**OTSEGO COUNTY**  
**STATEMENT OF NET ASSETS**  
**December 31, 2003**

**EXHIBIT A**  
**(CONTINUED)**

	<b>PRIMARY GOVERNMENT</b>			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Long-Term Liabilities				
Advances From State	50,000		50,000	
Long-Term Advances From				
Other Funds--Primary Government	23,333	200,000	223,333	66,125
Other Governmental Units	60,849		60,849	
Deferred Revenue	6,005,994		6,005,994	
Bonds Payable	4,745,000		4,745,000	-
Notes Payable	-		-	-
Installment Loan Payable	-		-	196,397
Vested Employee Benefits Payable	189,862	-	189,862	55,908
Total Noncurrent Liabilities	11,075,038	200,000	11,275,038	318,430
Total Liabilities	12,787,599	467,284	13,254,883	2,428,495
Net Assets				
Investment in Capital Assets, Net of Related Debt	7,928,529	1,045,277	8,973,806	14,445,155
Restricted for				
Debt Service	56,323		56,323	
Capital Projects	2,694,040		2,694,040	
Housing Projects	1,739,491		1,739,491	
Ambulance and Emergency Services				218,223
County Roads			-	1,704,340
Sportsplex				460,124
Other Purposes	2,712,254		2,712,254	
Unrestricted	30,957	6,009,016	6,039,973	
Total Net Assets	\$ 15,161,594	\$ 7,054,293	\$ 22,215,887	\$ 16,827,842

**The Notes to Financial Statements are an integral part of this statement.**

OTSEGO COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2003

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Primary Government</b>								
Governmental Activities								
General Government	\$ 6,815,014	\$ 1,449,776	\$ 3,108,341	\$ 2,765,746	\$ 508,849		\$ 508,849	
Public Safety	3,035,791	1,258,190	345,021	(3,628)	(1,436,208)		(1,436,208)	
Public Works	726,044	402,608	343		(323,093)		(323,093)	
Health and Welfare	2,270,516	242,746	824,544		(1,203,226)		(1,203,226)	
Community and Economic Development	1,428,235	54,303	668,716		(705,216)		(705,216)	
Recreation and Culture	1,653,851	562,790	70,482		(1,020,579)		(1,020,579)	
Other	672,272				(672,272)		(672,272)	
Interest on Long-Term Debt	321,939				(321,939)		(321,939)	
Total Governmental Activities	16,923,662	3,970,413	5,017,447	2,762,118	(5,173,684)	\$ -	(5,173,684)	\$ -
Business-Type Activities								
Delinquent Tax Revolving	11,416	645,191				633,775	633,775	
Public Transit	1,915,154	272,968	1,208,371	371,080		(62,735)	(62,735)	
Non-Major Enterprise Funds	148,010	87,423				(60,587)	(60,587)	
Total Business-Type Activities	2,074,580	1,005,582	1,208,371	371,080	-	510,453	510,453	-
Total Primary Government	\$ 18,998,242	\$ 4,975,995	\$ 6,225,818	\$ 3,133,198	\$ (5,173,684)	\$ 510,453	\$ (4,663,231)	\$ -
<b>Component Units</b>								
Road Commission	\$ 5,977,745	\$ 1,098,723	\$ 4,580,455	\$ -				\$ (298,567)
Ambulance	1,502,464	1,046,154	5,577	26,235				(424,498)
Sportsplex	934,987	542,346	4,274	-				(388,367)
Total Component Units	\$ 8,415,196	\$ 2,687,223	\$ 4,590,306	\$ 26,235	\$ -	\$ -	\$ -	\$ (1,111,432)
General Revenues								
Property Taxes					\$ 6,362,429	\$ 228,230	\$ 6,590,659	\$ 1,431,409
State-Shared Revenues					548,225		548,225	
Unrestricted Investment Earnings					46,810	34,599	81,409	
Rentals					73,263		73,263	
Sale of Capital Assets					31,360		31,360	
Miscellaneous						44,576	44,576	91,671
Transfers In (Out)					560,814	5,112	565,926	(565,926)
Total General Revenues--Special Items and Transfers					7,622,901	312,517	7,935,418	957,154
Change in Net Assets					2,449,217	822,970	3,272,187	(154,278)
Net Assets--Beginning					12,712,377	6,231,323	18,943,700	16,982,120
Net Assets--Ending					\$ 15,161,594	\$ 7,054,293	\$ 22,215,887	\$ 16,827,842

The Notes to Financial Statements are an integral part of this statement.

**OTSEGO COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2003**

**EXHIBIT C**

	<b><u>SPECIAL REVENUE FUNDS</u></b>			<b><u>CAPITAL PROJECT FUND</u></b>	Non-Major Governmental Funds	Total Governmental Funds
	General	Public Improvement	Housing Commission	Airport Construction		
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents	\$ 99,285	\$ 557,430	\$ 99,801	\$ 7,004	\$ 1,148,788	\$ 1,912,308
Investments	110,244	1,467,467	94,194	91,663	1,863,132	3,626,700
Receivables						
Taxes	4,067,925				1,857,110	5,925,035
Accounts	67,888				113,176	181,064
Land Contracts			1,607,016			1,607,016
Due From Other Funds--Primary Government	9,962				197,662	207,624
Due From Other Funds--Component Units	1,968					1,968
Due From State	411,866				85,118	496,984
Due From Local Units	202,443	7,498			33,195	243,136
Inventories					14,294	14,294
Prepaid Expense	7,059				2,693	9,752
Long-Term Advances to						
Other Funds--Primary Government	23,333	275,000				298,333
Other Funds--Component Units	86,450					86,450
Total Assets	<u>\$ 5,088,423</u>	<u>\$ 2,307,395</u>	<u>\$ 1,801,011</u>	<u>\$ 98,667</u>	<u>\$ 5,315,168</u>	<u>\$ 14,610,664</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
Liabilities						
Accounts Payable	\$ 561,607	\$ 8,190	\$ 897		\$ 159,001	\$ 729,695
Due to Other Funds--Primary Government	28,716	59,965			50,864	139,545
Due to Local Units	6,729				44,544	51,273
Accrued Liabilities	27,056				27,699	54,755
Advances From State					50,000	50,000
Long-Term Advances From						
Other Funds--Primary Government					23,333	23,333
Other Governmental Units	60,849					60,849
Deferred Revenue	4,080,877		\$ 1,611,801		1,867,777	7,560,455
Total Liabilities	<u>4,765,834</u>	<u>68,155</u>	<u>1,612,698</u>	<u>\$ -</u>	<u>2,223,218</u>	<u>8,669,905</u>

**OTSEGO COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2003**

**EXHIBIT C  
(CONTINUED)**

	<b><u>SPECIAL REVENUE FUNDS</u></b>			<b><u>CAPITAL PROJECT FUND</u></b>	Non-Major Governmental Funds	Total Governmental Funds
	General	Public Improvement	Housing Commission	Airport Construction		
Fund Equity						
Fund Balances						
Reserved for						
Long-Term Advances	109,783					109,783
State Remonumentation	11,477					11,477
Family Counseling	40,356					40,356
Other Reserves	12,016					12,016
Inventory					13,789	13,789
Donations					55,828	55,828
Debt Service					128,616	128,616
Capital Projects/Improvements		2,239,240		98,667	356,133	2,694,040
Housing Projects			188,313			188,313
Special Revenue Programs					2,537,584	2,537,584
Unreserved--Undesignated	148,957					148,957
Total Fund Equity	322,589	2,239,240	188,313	98,667	3,091,950	5,940,759
Total Liabilities and Fund Equity	<u>\$ 5,088,423</u>	<u>\$ 2,307,395</u>	<u>\$ 1,801,011</u>	<u>\$ 98,667</u>	<u>\$ 5,315,168</u>	<u>\$ 14,610,664</u>

Fund Balance--Total Governmental Funds \$ 5,940,759

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 13,338,529

Revenues that do not provide current financial resources are not reported as revenue in the funds. 1,554,461

Certain liabilities, such as bonds payable, interest payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (5,672,155)

Total Net Assets \$ 15,161,594

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT D**

	<b>SPECIAL REVENUE FUNDS</b>			<b>CAPITAL PROJECT FUND</b>		
	General	Public Improvement	Housing Commission	Airport Construction	Non-Major Governmental	Total Governmental Funds
<b>Revenues</b>						
Taxes and Penalties	\$4,004,996				\$ 2,357,433	\$ 6,362,429
Licenses and Permits	105,339				571,347	676,686
Federal Grants	706,941		\$ 324,168	\$ 2,561,875	231,830	3,824,814
State Grants	1,075,834			142,326	435,931	1,654,091
Contributions From Local Units	2,153,225		39,430		61,581	2,254,236
Charges for Services	1,223,298				1,240,624	2,463,922
Fines and Forfeits	63,702				179,034	242,736
Interest and Rentals	120,073	\$ 41,749	8,529	17,053	457,385	644,789
Other Revenue	287,981	4,327	58,132		292,667	643,107
<b>Total Revenues</b>	<b>9,741,389</b>	<b>46,076</b>	<b>430,259</b>	<b>2,721,254</b>	<b>5,827,832</b>	<b>18,766,810</b>
<b>Expenditures</b>						
Current						
General Government	6,422,295				139,057	6,561,352
Public Safety	1,959,133				908,002	2,867,135
Public Works	-				519,183	519,183
Health and Welfare	437,003				1,832,682	2,269,685
Community and Economic Development	272,709		495,839		660,255	1,428,803
Recreation and Cultural	-				1,247,178	1,247,178
Other	672,272				-	672,272
Capital Outlay	34,852	72,961	5,220	2,860,379	636,127	3,609,539
Debt Service						
Principal					641,122	641,122
Interest and Fiscal Fees					332,044	332,044
<b>Total Expenditures</b>	<b>9,798,264</b>	<b>72,961</b>	<b>501,059</b>	<b>2,860,379</b>	<b>6,915,650</b>	<b>20,148,313</b>
Excess of Revenues Over (Under) Expenditures	(56,875)	(26,885)	(70,800)	(139,125)	(1,087,818)	(1,381,503)
<b>Other Financing Sources (Uses)</b>						
Interfund Transfers In--Primary Government	41,154	49,237			992,934	1,083,325
Interfund Transfers In--Component Unit					565,926	565,926
Interfund Transfers (Out)--Primary Government	(583,543)	(178,411)			(326,483)	(1,088,437)
<b>Total Other Financing Sources (Uses)</b>	<b>(542,389)</b>	<b>(129,174)</b>	<b>-</b>	<b>-</b>	<b>1,232,377</b>	<b>560,814</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(599,264)	(156,059)	(70,800)	(139,125)	144,559	(820,689)
Fund Balance (Deficit)--January 1, 2003	914,990	2,395,299	259,113	237,792	2,835,188	6,642,382
Restatement to Fund Balance	6,863				112,203	119,066
Restated Fund Balance-January 1, 2003	921,853	2,395,299	259,113	237,792	2,947,391	6,761,448
Fund Balance (Deficit)--December 31, 2003	\$ 322,589	\$ 2,239,240	\$ 188,313	\$ 98,667	\$ 3,091,950	\$ 5,940,759

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGE IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2003**

**EXHIBIT D-1**

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ (820,689)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	3,609,539
Deduct--Depreciation Expense	(1,077,089)

Revenues earned but not available for current resources are not reported in the funds.

Housing Commission--Loans paid out during 2003.	45,256
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal payments on long-term liabilities	641,122
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Accrued interest expense is not recorded by governmental funds but is reported under interest and fiscal charges for purposes of net assets

Add--Net decrease in accrued interest expense for 2003.	10,105
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds. Net decrease in compensated absences

40,974

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,449,218</u>
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**The Notes to Financial Statements are an integral part of this statement.**



**OTSEGO COUNTY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2003**

**EXHIBIT E**

	<b><u>BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS</u></b>			
	Delinquent Tax Revolving	Public Transit	Non-Major Enterprise Funds	Total
<b><u>ASSETS</u></b>				
Current Assets				
Cash and Cash Equivalents	\$ 1,279,096	\$ 185,262	\$ 23,911	\$ 1,488,269
Investments	3,185,215		28,881	3,214,096
Receivables				
Taxes--Delinquent	1,174,638			1,174,638
Accounts		15,967	25,500	41,467
Due From State		153,009		153,009
Due From Local Units		94,821		94,821
Total Current Assets	5,638,949	449,059	78,292	6,166,300
Noncurrent Assets				
Long-Term Advance--Other Governmental Units		10,000		10,000
Capital Assets, Net of Accumulated Depreciation	1,778	1,338,679	4,820	1,345,277
Total Noncurrent Assets	1,778	1,348,679	4,820	1,355,277
Total Assets	\$ 5,640,727	\$ 1,797,738	\$ 83,112	\$ 7,521,577
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts Payable	\$ 37	\$ 50,776	\$ 11,853	\$ 62,666
Accrued Liabilities		43,658		43,658
Due to Other Funds	178			178
Other Liabilities	24,373	36,409		60,782
Advance From Primary Government		100,000		100,000
Total Current Liabilities	24,588	230,843	11,853	267,284
Non-Current Liabilities				
Long-Term Advance From Primary Government		200,000		200,000
Total Non-Current Liabilities	-	200,000	-	200,000
Total Liabilities	24,588	430,843	11,853	467,284
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, Net of Related Debt	1,778	1,038,679	4,820	1,045,277
Unrestricted	5,614,361	328,216	66,439	6,009,016
Total Net Assets	\$ 5,616,139	\$ 1,366,895	\$ 71,259	\$ 7,054,293

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT F**

	<b><u>BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS</u></b>			
	Delinquent Tax Revolving	Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 177,012	\$ 272,968	\$ 87,423	\$ 537,403
Interest on Delinquent Taxes	468,179			468,179
Total Operating Revenues	645,191	272,968	87,423	1,005,582
Operating Expenses				
Salaries and Wages		908,200		908,200
Fringe Benefits		372,022		372,022
Contractual Services		74,067	32,504	106,571
Materials and Supplies	9,638	126,352	21,232	157,222
Fuel and Lubricants		148,194		148,194
Equipment Repair and Maintenance			2,995	2,995
Utilities		34,462		34,462
Casualty and Liability Costs		25,136		25,136
Depreciation	1,778	167,971	63,829	233,578
Other		58,750	27,450	86,200
Total Operating Expenses	11,416	1,915,154	148,010	2,074,580
Operating Income (Loss)	633,775	(1,642,186)	(60,587)	(1,068,998)
Nonoperating Revenues (Expenses)				
Local Operating Assistance		517,995		517,995
State Operating Grants		532,071		532,071
Federal Operating Grants		135,817		135,817
State and Federal Grants--Prior Year Adjustments		22,488		22,488
Interest Earned on Investments	29,513	5,086		34,599
Property Taxes Levied		228,230		228,230
Other		44,576		44,576
Total Nonoperating Revenues (Expenses)	29,513	1,486,263	-	1,515,776
Income (Loss) Before Contributions and Transfers	663,288	(155,923)	(60,587)	446,778
Capital Contributions		371,080		371,080
Interfund Transfers				
Transfers In			14,000	14,000
Transfers (Out)	(8,888)			(8,888)
Change in Net Assets	654,400	215,157	(46,587)	822,970
Total Net Assets--January 1, 2003	4,961,739	1,151,738	117,846	6,231,323
Total Net Assets--December 31, 2003	\$ 5,616,139	\$ 1,366,895	\$ 71,259	\$ 7,054,293

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT G**

	<b>BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS</b>			
	Delinquent Tax Revolving	Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 195,127	\$ 262,181	\$ 61,923	\$ 519,231
Interest on Delinquent Taxes	468,179			468,179
Delinquent Taxes Purchased	(3,167,130)			(3,167,130)
Delinquent Taxes Collected	3,873,580			3,873,580
Cash Payments to Employees for Services and Benefits		(1,255,473)		(1,255,473)
Cash Payments to Suppliers for Goods and Services	(24,498)	(429,644)	(74,166)	(528,308)
Net Cash Provided by Operating Activities	1,345,258	(1,422,936)	(12,243)	(89,921)
Cash Flows From Noncapital Financing Activities				
Concessions				-
State Grants		489,771		489,771
Federal Grants		141,047		141,047
Property Tax		228,230		228,230
Other		533,124		533,124
Transfers In (Out)	(8,888)		14,000	5,112
Net Cash Provided by Noncapital Financing Activities	(8,888)	1,392,172	14,000	1,397,284
Cash Flows From Capital and Related Financing Activities				
Capital Assistance Grants		371,080		371,080
Long-Term Advance From County		300,000		300,000
Capital Assets Purchased With Local Funds		(456,556)	(7,000)	(463,556)
Capital Assets Purchased With Capital Assistance		(371,080)		(371,080)
Net Cash Provided by Capital and Related Financing Activities	-	(156,556)	(7,000)	(163,556)
Cash Flows From Investing Activities				
Interest on Cash Equivalents	29,513	5,086		34,599
Sale or (Purchase) of Investments	(630,430)		(2,183)	(632,613)
Net Cash Provided by Investing Activities	(600,917)	5,086	(2,183)	(598,014)
Net Increase (Decrease) in Cash and Cash Equivalents	735,453	(182,234)	(7,426)	545,793
Cash and Cash Equivalents at Beginning of Year	543,643	367,496	31,337	942,476
Cash and Cash Equivalents at End of Year	\$ 1,279,096	\$ 185,262	\$ 23,911	\$ 1,488,269
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 633,775	\$ (1,642,186)	\$ (60,587)	\$ (1,068,998)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	1,778	167,971	63,829	233,578
Decrease in Delinquent Taxes Receivable	706,449			706,449
(Increase) Decrease in Accounts Receivable	6,382	(10,787)	(25,500)	(29,905)
(Increase) Decrease in Inventory		5,511		5,511
Increase (Decrease) in Accounts Payable	(14,859)	31,806	10,015	26,962
Increase (Decrease) in Accrued Wages Payable				-
Increase (Decrease) in Accrued Paid Time Off				-
(Increase) Decrease in Other Accruals	11,733	24,749		36,482
Net Cash Provided by Operating Activities	\$ 1,345,258	\$ (1,422,936)	\$ (12,243)	\$ (89,921)

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2003**

**EXHIBIT H**

	Agency Funds	Other Employee Benefit Fund
	<u>          </u>	<u>          </u>
<b><u>ASSETS</u></b>		
Cash	\$ 568,147	\$ 106
Investments	<u>765,627</u>	<u>216,272</u>
Total Assets	<u><u>\$ 1,333,774</u></u>	<u><u>216,378</u></u>
<b><u>LIABILITIES</u></b>		
Liabilities		
Due to Other Funds	\$ 68,320	
Due to State of Michigan	750,406	
Undistributed Tax Collections	347,223	
Bonds Restitutions and Payable to Individuals	73,012	
Other Trust Payable	15,445	
Premium Deposits	<u>79,368</u>	
Total Liabilities	<u><u>\$ 1,333,774</u></u>	<u><u>-</u></u>
<b><u>NET ASSETS</u></b>		
Held in Trust		<u><u>\$ 216,378</u></u>

**The Notes to the Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY  
STATEMENT OF CHANGES IN NET  
ASSETS--FIDUCIARY FUNDS  
YEAR ENDED DECEMBER 31, 2003**

**EXHIBIT I**

	<u>Other Employee Benefit Fund</u>
<b><u>ADDITIONS</u></b>	
Contributions	
Employer	\$ 77,088
Plan Members	
	<u>77,088</u>
Total Contributions	<u>77,088</u>
Investment Income	
Net Appreciation (Depreciation) in Fair Value of Investments	
Interest	1,116
Dividends	
	<u>1,116</u>
Total Investment Income	1,116
Less Investment Expense	
	<u>1,116</u>
Net Investment Income	<u>1,116</u>
Total Additions	<u>78,204</u>
<b><u>DEDUCTIONS</u></b>	
Benefits	
Refunds of Contributions	
Administrative Expenses	
Other Deductions	
	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Assets	
Net Assets--Beginning of the Year	<u>138,174</u>
Net Assets--End of the Year	<u><u>\$ 216,378</u></u>

**The Notes to the Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
December 31, 2003**

**EXHIBIT J**

	Road Commission	Ambulance Corporation	Sportsplex	Total
<b><u>ASSETS</u></b>				
Current Assets				
Cash	\$ 3,653	\$ 18,247	\$ 216,878	\$ 238,778
Investments	917,264	14,440	260,696	1,192,400
Receivables				
Taxes Receivable		397,946	1,086,588	1,484,534
Accounts	2,197	243,757	15,445	261,399
Due From Local Units of Government	736,938			736,938
Inventories	493,521		45,273	538,794
Total Current Assets	2,153,573	674,390	1,624,880	4,452,843
Noncurrent Assets				
Capital Assets (Net of Accumulated Depreciation)	13,979,073	824,421		14,803,494
Total Noncurrent Assets	13,979,073	824,421	-	14,803,494
Total Assets	\$ 16,132,646	\$ 1,498,811	\$ 1,624,880	\$ 19,256,337
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts Payable	\$ 13,254	\$ 3,222	\$ 70,200	\$ 86,676
Accrued Liabilities	67,373	54,999	6,000	128,372
Due to Primary Government			1,968	1,968
Advances From Primary Government		20,325		20,325
Advances From MDOT	312,698			312,698
Deferred Revenue		397,946	1,086,588	1,484,534
Bonds Payable				-
Notes Payable				-
Installment Purchase Agreements Payable		75,492		75,492
Total Current Liabilities	393,325	551,984	1,164,756	2,110,065
Noncurrent Liabilities				
Long-Term Advances From Primary Government--General Fund		66,125		66,125
Installment Purchase Agreements Payable	51,111	145,286		196,397
Vested Employee Benefits Payable	55,908			55,908
Total Noncurrent Liabilities	107,019	211,411	-	318,430
Total Liabilities	\$ 500,344	\$ 763,395	\$ 1,164,756	\$ 2,428,495
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets--Net of Related Debt	\$ 13,927,962	\$ 517,193		\$ 14,445,155
Restricted for				
Ambulance and Emergency Services		218,223		218,223
County Roads	1,704,340			1,704,340
Sportsplex			\$ 460,124	460,124
Total Net Assets	\$ 15,632,302	\$ 735,416	\$ 460,124	\$ 16,827,842

**The Notes to Financial Statements are an integral part of this statement.**

**OTSEGO COUNTY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**For the Year Ended December 31, 2003**

**EXHIBIT K**

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road	Ambulance Corporation	Sportsplex	Total
Road Commission								
Public Works	\$ 5,973,579	\$ 1,098,723	\$ 4,580,455		\$ (294,401)			\$ (294,401)
Interest on Related Debt	4,166				(4,166)			(4,166)
Total Road Commission	5,977,745	1,098,723	4,580,455	\$ -	(298,567)	\$ -	\$ -	(298,567)
Ambulance Corporation								
Health and Welfare	1,488,937	1,046,154	5,577	26,235		(410,971)		(410,971)
Interest on Related Debt	13,527					(13,527)		(13,527)
Total Ambulance Corporation	1,502,464	1,046,154	5,577	26,235	-	(424,498)	-	(424,498)
Sportsplex								
Recreation and Culture	934,987	542,346	4,274				\$ (388,367)	(388,367)
Total Sportsplex	\$ 934,987	\$ 542,346	\$ 4,274	\$ -	-	-	(388,367)	(388,367)
General Revenues								
Property Taxes						384,027	1,047,382	1,431,409
Investment Earnings								-
Other Revenues					91,671			91,671
Transfers								
Interfund Transfers (Out)							(565,926)	(565,926)
Total General Revenues--Special Items and Transfers					91,671	384,027	481,456	957,154
Change in Net Assets						(40,471)	93,089	(154,278)
Net Assets--Beginning of Year					15,839,198	775,887	367,035	16,982,120
Net Assets--End of Year					\$ 15,632,302	\$ 735,416	\$ 460,124	\$ 16,827,842

**The Notes to Financial Statements are an integral part of this statement.**

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into 9 townships, 1 village and 1 city. The county seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (9 members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 23,300 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The accounting policies of the County of Otsego conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Otsego County:

#### Reporting Entity

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit). Each discretely presented component unit is reported separately in Exhibit J and K of the financial statements.

#### BLENDED COMPONENT UNITS

##### Building Authority

The Otsego County Building Authority is governed by a 3 member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings. The financial statements of the Otsego County Building Authority are reported in the county's Debt Service Fund and Capital Projects Fund as presented in this report.

##### Bus System

The Otsego County Bus System is not legally separate but is administered by a 3 member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioners' approval. The Bus System taxes are levied under the taxing authority of the county, as approved by the county electors, and is included as part of the county's total tax levy as well as reported in the Bus System Fund.



## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Commission On Aging

The Otsego County Commission on Aging (Commission) is not legally separate, but is administered by an advisory board of directors (board) with 12 members. Members of the board are selected by the county from nine districts and an additional three at-large members. The board of directors may not issue debt and the tax levy is subject to county board of commissioners' approval. The Commission's taxes are levied under the taxing authority of the county, as approved by the county electors, and is included as part of the county's total tax levy as well as reported in the Commission on Aging Fund.

The Commission on Aging audit report did not comply with GASB 34 requirements. Consequently, no adjustments were made to the fund level statements of the Commission.

#### DISCRETELY PRESENTED COMPONENT UNITS

##### County Road Commission

The Otsego County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners elected biannually to serve a 6-year term. The Road Commission may not issue debt without the county's approval and the tax levy is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund as a special revenue fund.

##### Otsego County Sportsplex

The Otsego County Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain a recreational and sports complex for Otsego County. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a board of directors, which consist of between 7 to 15 members. Members are elected by the affirmative vote of a majority of the directors. The Sportsplex may not issue debt without the county's approval and the tax levy is subject to county board of commissioners' approval. The Sportsplex's taxes are levied under the taxing authority of the county, as approved by the county electors, and are included as part of the county's total tax levy reported in the County Sportsplex Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Otsego County Ambulance Corporation, Inc.

The Otsego County Ambulance Corporation, Inc., a nonprofit corporation which was established pursuant to the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, has an agreement with the County of Otsego to provide ambulance service in and about the County of Otsego. A 9-member board governs the Ambulance Corporation. The Ambulance Corporation may not issue debt without the county's approval and a tax levy is subject to county board of commissioners' approval. If approval is granted, the Ambulance's taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as in the Ambulance Fund. All assets are in the name of the county. The activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

##### Administrative Offices

Otsego County Bus System  
1254 Energy Drive  
Gaylord, Michigan 49735

Otsego County Road Commission  
Industrial Park, P.O. Box 537  
Gaylord, Michigan 49735

Otsego County Sportsplex  
1250 Gornick Avenue  
Gaylord, Michigan 49735

Otsego County Ambulance Corporation, Inc.  
100 McLouth, P.O. Box 642  
Gaylord, Michigan 49735

##### JOINTLY GOVERNED ORGANIZATIONS

##### 46<sup>th</sup> Circuit Trial Court

Otsego, Crawford and Kalkaska counties participate jointly in the operation of the 46<sup>th</sup> Circuit Trial Court. The funding formula approved by the member counties is based on a cost-study. Member counties' percentages of net operating budget for the year 2003 were:

Otsego	45 percent
Crawford	27 percent
Kalkaska	28 percent

Otsego County pays all expenditures and is reimbursed actual expenditures from Crawford and Kalkaska counties at the percentages listed above. During 2003, Crawford County's reimbursement was \$730,148 and Kalkaska County's reimbursement was \$916,593.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Northwest Michigan Community Health Agency

Northwest Michigan Community Health Agency provides health service for Otsego County. The counties of Otsego, Antrim, Emmet and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Member counties' percentages of the net operation budget for the year of 2003 were:

Otsego	22.4 percent	Antrim	22.2 percent
Charlevoix	25.1 percent	Emmet	30.3 percent

Otsego County's appropriation and cigarette tax to the Health Agency for the year was \$162,803 and \$9,892, respectively.

##### Michigan Technical Education Center (M-TEC)

Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), an educational facility in the County of Otsego. On December 7, 1999, the electors of the county authorized a tax levy not to exceed .65 mills for a period of 20 years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the county's board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County's tax revenues amounted to \$626,250 for which Otsego appropriated \$623,278 to Kirtland Community College.

The Michigan Technical Education Center (M-TEC) is used in conjunction with and occupied by the University Center established and operated by the University Center of Gaylord, a non-profit corporation.

##### North Country Community Mental Health

The North Country Community Mental Health consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego. Financial records for the board are recorded and maintained by the mental health and audited separately.

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2003 local match for Otsego County was \$94,003.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Joint Building Authority of Otsego County

The County of Otsego and City of Gaylord under Public Act 31 of 1948 (first extra session), as amended, in 1966, created the Otsego County Joint Building Authority. Its primary purpose was to provide a funding vehicle for the acquisition and construction of a building to serve as offices for the governmental units. The Joint Building Authority operates autonomously under an intergovernmental lease and service agreement. It operates and maintains the building for the governmental units charging maintenance fees to each unit. Maintenance fees paid by the county to the Joint Building Authority amounted to \$115,013. The fees are based on a proration of space by unit for the building, which is 83% for the county and 17% for the City of Gaylord.

##### Fiscal Year Ends Other Than December 31, 2003

The financial information presented in this report is for the year ended December 31, 2003, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Blended--Special Revenue Fund	September 30, 2003
Bus System	Blended--Enterprise Fund	September 30, 2003

#### BASIS OF PRESENTATION

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Although the County 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the County's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (90 days). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Public Improvement Fund accounts for earmarked revenue set aside for statutory public improvements.

Housing Commission Fund accounts for grant revenue and contributions reserved for the improvement of housing with the county.

Airport Construction Fund accounts for recording the improvement of the airport's infrastructure and buildings.

The county reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for money, either advanced by a county or by the issuance of general obligation limited tax notes, to pay other taxing units and various county funds for their delinquent taxes.

Bus System Fund accounts for the operation of the public transportation system.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax fund, the transit fund, and the jail commissary fund are collection fees for delinquent taxes, busing services, and sales commissions, respectively. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as needed.

#### Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

#### Inventories and Prepaid Items

Inventories are valued at cost, using the consumption method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories--Primary Government

Commission on Aging--The inventory consists of food on hand at September 30, 2003 valued at cost in the amount of \$505.

Airport--The inventory at the airport consists of fuel on hand based on average cost with a value of \$13,789 at December 31, 2003.

#### Inventories--Component Units

Road Commission--Inventories consisting of equipment parts and supplies of \$122,598 and road materials of \$370,923 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex--Inventory consist of items in the Pro Shop with a value of \$45,273.

#### Capital Assets--Primary Government

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Bus Operating Facility	12 to 20 Years
Shop Equipment	3 to 10 years
Office Furniture and Equipment	3 to 10 years
Vehicles	3 to 7 years
Other Infrastructure	20 years



## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items) are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB No. 34 requires major networks and major subsystem of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. The Otsego County Road Commission has capitalized the current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has retroactively capitalized the major infrastructure assets as of December 31, 2003, as permitted by GASB No. 34.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

##### Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned but unused sick for the library employees and vacation pay benefits for all of the employees. The liability for unpaid accumulated sick leave is only 50% of the time available according to the county's union contracts and personnel policies. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year-end.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

##### Cost Allocations

The Bus System has cost allocation plans for all allocated expenses that are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

##### Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Budgets are adopted by the county board of commissioners for the general and special revenue funds, except for the County Road Fund budget (special revenue--component unit), which is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget document presents information by fund, function, department and line-items. The budget is adopted at the line-item level and control is exercised at the line-item level. The county board of commissioners monitors and amends the budgets as necessary.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

The county has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General Fund and special revenue funds are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>
General Fund			
Current			
State Domestic Preparedness		\$ 18,177	\$ (18,177)
Motorpool		6,559	(6,559)
Housing Commission			
Community and Economic Development	\$313,976	501,059	(187,083)

#### NOTE C--CASH, CASH EQUIVALENT AND INVESTMENTS

Deposits are carried at cost. Deposits are in six financial institutions in the name of the Otsego County Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations, bonds, securities and other direct obligations of the United States; or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The county's deposits are in accordance with statutory authority.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Otsego County Board of Commissioners has designated six banks for the deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and includes all of the above investments.

At year-end, the county's deposits and investments were reported in the basic financial statements in the following categories:

<b>Bank Balance</b>					
Primary Government					
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Deposits Insured (FDIC)	\$ 234,037	\$ 155,116	\$568,147	\$ 957,300	\$103,879
Uninsured	<u>1,583,281</u>	<u>1,251,140</u>	<u>30,814</u>	<u>2,865,235</u>	<u>140,136</u>
Total Deposits	<u>\$1,817,318</u>	<u>\$1,406,256</u>	<u>\$598,961</u>	<u>\$3,822,535</u>	<u>\$244,015</u>
<b>Balance Sheet Carrying Amount</b>					
Primary Government					
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Deposits Insured (FDIC)	\$ 220,290	\$ 146,004	\$568,253	\$ 934,547	\$100,700
Uninsured	<u>1,692,018</u>	<u>1,342,265</u>		<u>3,034,283</u>	<u>138,078</u>
Total Deposits	<u>\$1,912,308</u>	<u>\$1,488,269</u>	<u>\$568,253</u>	<u>\$3,968,830</u>	<u>\$238,778</u>

In accordance with GASB Statement No. 3, investments are classified into three categories of credit risk as follows:

- Category 1: Insured or registered, or securities held by the county or its agents in Otsego County's name.
- Category 2: Uninsured and unregistered, with securities held by counter party's trust department or agent in Otsego County.
- Category 3: Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in Otsego County's name.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

#### Nonrisk-Categorized Investments

The nature of mutual funds, insurance annuities, bond funds and equity pools do not allow for risk-categorization, which is in accordance with GASB Statement No. 3. The risk and nonrisk-categorized investments are carried at cost, which is also the fair value.

PRIMARY GOVERNMENT	Category	Carrying Amount	Fair Value
Risk-Categorized			
Government Bonds	(1)	\$ 2,283,000	\$ 2,283,000
Corporate Bonds	(1)	800,012	800,012
Mortgage and Asset Backed Securities	(1)	810,157	810,157
Total Risk-Categorized			
Investments--Primary Government		<u>\$ 3,893,169</u>	<u>\$ 3,893,169</u>
Nonrisk-Categorized			
Pooled Investment Funds		\$ 3,801,835	\$ 3,801,835
Long-Term Certificates of Deposit		48,323	48,323
Michigan Municipal Risk Management Authority Retention Funds		<u>79,368</u>	<u>79,368</u>
Total Nonrisk-Categorized		<u>\$ 3,929,526</u>	<u>\$ 3,929,526</u>
Total Investments--Primary Government		<u>\$ 7,822,695</u>	<u>\$ 7,822,695</u>

#### COMPONENT UNIT

Risk-Categorized			
Government Bonds	(1)	<u>\$ 545,000</u>	<u>\$ 545,000</u>
Total Risk-Categorized			
Investments--Primary Government		<u>\$ 545,000</u>	<u>\$ 545,000</u>
Nonrisk-Categorized			
Pooled Investment Funds		<u>\$ 647,400</u>	<u>\$ 647,400</u>
Total Nonrisk-Categorized		<u>\$ 647,400</u>	<u>\$ 647,400</u>
Total Investments--Component Unit		<u>\$ 1,192,400</u>	<u>\$ 1,192,400</u>
Total Cash and Investments--Reporting Entity		<u>\$13,222,704</u>	

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE D--PROPERTY TAXES

The county property tax is levied each December 1st based on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of county operations.

The 2003 taxable valuation of Otsego County amounted to \$1,031,564,507 on which ad valorem taxes of 4.0502 mills were levied for the County operating purposes, 0.5900 mill for Commission on Aging, .0593 mill for County Parks, .1875 mill for the Community Center, 0.2355 for the Bus System, .3931 mill for Library, .3949 for Ambulance, .6464 for M-TEC, .5569 for the University Center, .7860 mill for Sportsplex Construction, and 0.2948 for Sportsplex Operating (component unit).

The 2003 current tax levied included \$4,067,034 for County Operations, \$594,561 for Commission on Aging, \$59,697 for County Parks, \$188,672 for Community Center, \$237,303 for the Bus System, \$396,156 for the Library, \$397,946 for the Ambulance, \$651,403 for M-TEC, \$561,182 for the University Center, \$789,576 for the Sportsplex Construction, and \$297,012 for Sportsplex Operating. These taxes will be recorded as revenue on county records in and for the year of 2003.

The taxes receivable is recorded in the financial statements as taxes receivable--current, with an offsetting credit to deferred revenue. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2003 and accordingly, do not reflect the 2003 tax levy.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--RECEIVABLES

#### Receivables--Primary Government

The following amounts listed as accounts receivable in the primary government funds have been collected within 90 days after year end and are not offset by deferred revenue:

General Fund (Major Fund)		
Billings	\$ 64,688	
Rent Receivable	<u>3,200</u>	
Total General Fund		\$ 67,888
Public Transit Fund (Major Fund)		
Billings		15,967
Special Revenue Funds (Non-Major Funds)		
University Center Fund		
Rent Receivable	3,258	
Emergency 911 Fund		
Telephone Surcharges for December	67,015	
Child Care Probate		
Reimbursements for December	1,500	
Airport Fund		
Billings	8,653	
Commission on Aging		
DEMO Grant	15,321	
Waiver Funding	3,041	
Tobacco Funding	4,046	
Private Pay--Otsego Haus	7,784	
Caregiver Support	1,587	
Up & Go	192	
Student Intern	<u>779</u>	
Total Special Revenue Funds		<u>113,176</u>
Total Primary Government Receivables		<u><u>\$ 197,031</u></u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE E--RECEIVABLES (Continued)

Receivables-Component Units

The receivables for the component units are presented in the financial statements as follows:

Road Commission		
Accounts Receivable		
Sundry		\$ 2,197
Ambulance		
Accounts Receivable		
Gross Patient Services Receivable	\$ 487,514	
Less Estimated Uncollectible (50%)	<u>(243,757)</u>	
Net Accounts Receivable		243,757
Sportsplex		
Accounts Receivable		
Rental and Advertising Receivable		<u>15,445</u>
Total		<u>\$ 261,399</u>

Loans Receivable--Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0 to 3% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue being recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation or rehabilitation of residential buildings. At December 31, 2003, the total outstanding loans were \$1,607,016.



# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS

#### Primary Government

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 401,154			\$ 401,154
Construction in Progress	<u>362,959</u>	<u>\$ 301,386</u>	<u>\$ 362,959</u>	<u>301,386</u>
Subtotal	<u>764,113</u>	<u>301,386</u>	<u>362,959</u>	<u>702,540</u>
Capital Assets Being Depreciated				
Buildings	10,008,293	319,768		10,328,061
Leasehold Improvements	3,705	21,149		24,854
Furniture and Fixtures	297,358	5,828		303,186
Equipment				
Data Handling	964,241	207,278	25,200	1,146,319
Other Equipment	1,486,408	108,630		1,595,038
Vehicles	1,023,554	265,363		1,288,917
Infrastructure	<u>2,443,502</u>	<u>2,700,278</u>		<u>5,143,780</u>
Subtotal	<u>16,227,061</u>	<u>3,628,294</u>	<u>25,200</u>	<u>19,830,155</u>
Less Accumulated Depreciation for				
Buildings	3,023,098	409,134		3,432,232
Leasehold Improvements		3,334		3,334
Furniture and Fixtures	150,751	45,019		195,770
Equipment				
Data Handling	550,676	225,267		775,943
Other Equipment	485,316	130,624		615,940
Vehicles	718,827	125,568		844,395
Infrastructure	<u>1,188,408</u>	<u>138,144</u>		<u>1,326,552</u>
Subtotal	<u>6,117,076</u>	<u>1,077,090</u>	<u>-</u>	<u>7,194,166</u>
Net Capital Assets Being Depreciated	<u>10,109,985</u>	<u>2,551,204</u>	<u>25,200</u>	<u>12,635,989</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 10,874,098</u>	<u>\$ 2,852,590</u>	<u>\$ 388,159</u>	<u>\$ 13,338,529</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	Amount			
General Government		\$	290,407	
Public Safety			182,136	
Public Works			206,603	
Community and Economic Development			3,147	
Recreation and Culture			<u>394,796</u>	
Total Depreciation--Governmental Activities			<u>\$1,077,089</u>	
Business-Type Activities	<u>01/01/2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2003</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 13,332</u>	<u>\$ 99,998</u>	<u>\$ (13,332)</u>	<u>\$ 99,998</u>
Subtotal	<u>13,332</u>	<u>99,998</u>	<u>(13,332)</u>	<u>99,998</u>
Capital Assets Being Depreciated				
Building	420,381	760,033	(420,381)	760,033
Vehicles	1,001,040	84,474		1,085,514
Equipment	<u>583,079</u>	<u>112,367</u>		<u>695,446</u>
Subtotal	<u>2,004,500</u>	<u>956,874</u>	<u>(420,381)</u>	<u>2,540,993</u>
Less: Accumulated Depreciation for				
Building	202,286	13,412	(211,476)	4,222
Vehicles	629,847	128,455		758,302
Equipment	<u>441,480</u>	<u>91,710</u>		<u>533,190</u>
Subtotal	<u>1,273,613</u>	<u>233,577</u>	<u>(211,476)</u>	<u>1,295,714</u>
Net Capital Assets Being Depreciated	<u>730,887</u>	<u>723,297</u>	<u>(208,905)</u>	<u>1,245,279</u>
Total Capital Assets--Net of Depreciation	<u>\$ 744,219</u>	<u>\$ 823,295</u>	<u>\$ (222,237)</u>	<u>\$ 1,345,277</u>

Depreciation expense was charged to business-type programs of the primary government as follows:

Business-Type Funds	
Delinquent Tax Revolving	\$ 1,778
Bus System	167,970
Global Positioning System	24,577
Imaging	<u>39,252</u>
Total Business-Type Funds	<u>\$ 233,577</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

#### Component Units

The following is a summary of changes in the capital assets for the Emergency Medical Services Corporation:

	<u>01/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2003</u>
Capital Assets Being Depreciated				
Buildings	\$ 725,000			\$ 725,000
Other Equipment	285,000			285,000
Vehicles	<u>649,232</u>	<u>\$169,132</u>		<u>818,364</u>
Subtotal	<u>1,659,232</u>	<u>169,132</u>	<u>\$ -</u>	<u>1,828,364</u>
Less Accumulated Depreciation				
Buildings	174,000	29,000		203,000
Other Equipment	228,000	57,000		285,000
Vehicles	<u>383,012</u>	<u>132,931</u>		<u>515,943</u>
Subtotal	<u>785,012</u>	<u>218,931</u>	<u>-</u>	<u>1,003,943</u>
Net Capital Assets				
Being Depreciated	<u>\$ 874,220</u>	<u>\$ (49,799)</u>	<u>\$ -</u>	<u>\$ 824,421</u>

Depreciation expense for the year was \$132,931.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

The following is a summary of changes in the capital assets for the Road Commission:

	Balance 01/01/2003	Additions	Deductions	Balance 12/31/2003
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 150,600			\$ 150,600
Subtotal	150,600	\$ -	\$ -	150,600
Capital Assets Being Depreciated				
Buildings	2,386,443	\$ 166,681		\$ 2,553,124
Road Equipment	4,531,613	426,177	\$250,254	4,707,536
Shop Equipment	100,251	5,327		105,578
Office Equipment	61,249	15,627		76,876
Engineers Equipment	15,846			15,846
Yard and Storage Equipment	1,800			1,800
Depletable Assets	4,760			4,760
Traffic Signals	44,756			44,756
Infrastructure--Bridges	805,533			805,533
Infrastructure--Roads	18,277,119	1,584,744		19,861,863
Total	26,229,370	2,198,556	250,254	28,177,672
Less Accumulated Depreciation				
Buildings	763,253	51,333		814,586
Road Equipment	3,362,756	460,629	225,443	3,597,942
Shop Equipment	65,887	8,503		74,390
Office Equipment	54,882	4,894		59,776
Engineers Equipment	15,449	157		15,606
Yard and Storage Equipment	1,800			1,800
Traffic Signals	2,189	2,984		5,173
Infrastructure--Bridges	97,447	27,922		125,369
Infrastructure--Roads	8,137,363	1,517,194		9,654,557
Total	12,501,026	2,073,616	225,443	14,349,199
Net Capital Assets Being Depreciated	13,728,344	124,940	24,811	13,828,473
Total Net Capital Assets	<u>\$13,878,944</u>	<u>\$ 124,940</u>	<u>\$ 24,811</u>	<u>\$13,979,073</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of the interfund receivables and payables between funds of the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government			
General	\$ 8,164	Building Department	\$ 974
		Emergency 911	4,100
		Friend of the Court	3,090
University Center	15,705	Building Authority	15,705
Library	68,320	Library Penal Fines	68,320
Building Authority	26,995	Criminal Justice Building	26,995
Courthouse Restoration	58,346	Public Improvement	59,965
General	1,619		
General	178	Delinquent Revolving	178
Building Authority	1,677	General	<u>28,716</u> *
Friend of the Court	<u>26,619</u>		
Total Primary Government	<u>\$ 207,623</u>		<u>\$ 208,043</u>
Primary Government		Component Unit	
General	<u>\$ 1,968</u>	Sportsplex	<u>\$ 1,968</u>
Total Primary Government	<u>\$ 1,968</u>	Total Component Unit	<u>\$ 1,968</u>

\* The \$420 difference is the result of the Bus System being on September 30 fiscal year end and transaction occurring after September 30th but prior to December 31st.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS (Continued)

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Fund</u>	<u>Advances From Other Funds</u>
Primary Government			
General	\$ 23,333	Parks and Recreation	\$ 23,333
Public Improvement	<u>275,000</u>	Bus System	<u>300,000</u>
Total Primary Government	<u>\$298,333</u>		<u>\$323,333</u> *
<u>Primary Government and Discrete Component Units</u>			
Primary Government		Component Unit	
General	<u>86,450</u>	Ambulance	<u>86,450</u>
Total Primary Government	<u>\$ 86,450</u>	Total Component Unit	<u>\$ 86,450</u>

\* The \$25,000 difference is the result of the Bus System being on September 30 fiscal year end and making a payment to the county in October 2003.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS  
(Continued)

The 2003 operating transfers from Exhibits D, F and K can be summarized as follows:

<u>Primary Government</u>	<u>Transfers In</u>		<u>Transfers (Out)</u>
General	\$ 8,000	Delinquent Tax Revolving	\$ 8,000
General	16,400	Emergency 911	26,400
Global Positioning System	10,000		
General	15,000	Gypsy Moth	19,000
Global Positioning System	4,000		
University Center	7,800	Equipment Revolving	7,800
Otsego Lake	2,500	General	454,306
Economic Development	22,000		
Law Library	10,000		
Child Care Probate	325,000		
Soldiers and Sailors Relief	6,000		
Airport	88,806		
Equipment Revolving	75,888	General	75,000
		Delinquent Tax Revolving	888
Building Authority Refunding Debt	251,288	University Center	246,288
		General	5,000
Building Authority	26,995	Criminal Justice Building	26,995
Court Restoration Building	147,447	Public Improvement	178,411
Animal Shelter	29,210		
General	1,754		
Public Improvement	<u>49,237</u>	General	<u>49,237</u>
Total Primary Government	<u>1,097,325</u>		<u>1,097,325</u>
<u>Primary Government</u>		<u>Component Unit</u>	
Building Authority	<u>565,926</u>	Sportsplex	<u>565,926</u>
Total Primary Government Unit	<u>565,926</u>	Total Component Unit	<u>565,926</u>
Total Reporting Entity	<u>\$ 1,663,251</u>		<u>\$ 1,663,251</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT

The long-term debt and other long-term obligations of the county's governmental funds, and the changes therein, may be summarized as follows:

<u>LONG-TERM DEBT</u>	<u>Balances 01/01/03</u>	<u>Additions (Reductions)</u>	<u>Balances 12/31/03</u>
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$15,000 to \$95,000 and at interest rates ranging from 7% to 9.5%.	\$ 650,000	\$ (45,000)	\$ 605,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$20,000 to \$60,000 and at interest rates ranging from 4.1% to 6.3%.	500,000	(30,000)	470,000
Otsego County Building Authority Series 1995 Bonds, maturing serially through 2006 in annual amounts ranging from \$290,000 to \$565,000 and at interest rates ranging from 4.7% to 5.5%.	1,995,000	(435,000)	1,560,000
Otsego County Building Authority Series 1995-A Bonds, maturing serially through 2005 in annual amounts ranging from \$10,000 to \$50,000 and at interest rates ranging from 4.05% to 5.90%.	45,000	(20,000)	25,000
Otsego County Building Authority Series 2000 Bonds, maturing serially through 2020 in annual amounts ranging from \$75,000 to \$250,000 and at interest rates from 5% to 5.5%.	2,850,000	(100,000)	2,750,000
Otsego County University Center	11,122	(11,122)	-
Vested Employee Benefits Payable	<u>230,835</u>	<u>(40,973)</u>	<u>189,862</u>
Total Long-Term Debt	<u>\$ 6,281,957</u>	<u>\$(682,095)</u>	<u>\$ 5,599,862</u>

The restatement of fund balance for the University Center includes debt that was not previously recorded. This is the final year for the payment of the University Center debt. Consequently, no payment schedule has been presented.



COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Discretely Presented Component Units

The following is a summary of pertinent information concerning the Road Commission's changes in long-term debt:

	Balances 01/01/03	Additions (Reductions)	Balances 12/31/03
Lease Purchase--Equipment	\$150,364	\$(99,253)	\$ 51,111
Compensated Absences	<u>49,731</u>	<u>6,177</u>	<u>55,908</u>
Total Long-Term Debt Road Commission	<u>\$200,095</u>	<u>\$(93,076)</u>	<u>\$107,019</u>

The following is a summary of pertinent information concerning the Ambulance Corporation's changes in long-term debt:

	Balances 01/01/03	Additions (Reductions)	Balances 12/31/03
Capital Lease--1997 Ambulance	\$ 4,189	\$ (4,189)	
Capital Lease--2000 Ambulance	31,265	(21,238)	\$ 10,027
Capital Lease--2000 Ambulance	83,783	(30,902)	52,881
Capital Lease--2001 Scott SCBA	7,129	(4,132)	2,997
Note Payable--2002 1st National Bank	102,755	(21,692)	81,063
Capital Lease--2003 Ambulance		(8,511)	
	<u></u>	<u>82,321</u>	<u>73,810</u>
Total Long-Term Debt Ambulance Corporation	<u>229,121</u>	<u>(8,343)</u>	<u>220,778</u>
Total Long-Term Debt Component Units	<u>429,216</u>	<u>(101,419)</u>	<u>327,797</u>
Total Long-Term Debt Reporting Entity	<u>\$ 6,700,051</u>	<u>\$(772,392)</u>	<u>\$ 5,927,659</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Annual Principal and Interest Requirements--Primary Government

The annual requirements to pay the principal and interest on primary government of the county's direct long-term debt obligations outstanding at December 31, 2003 are as follows:

#### Otsego County Building Authority--1991 Series Bonds

Date of Issue: August 1, 1991

Amount: \$900,000

Purpose: The bonds were issued to remodel and equip a part of the Alpine Center to be used for facilities for the Otsego County Mental Health Department and the Otsego County Family Independence Agency. The bonds were issued under the provisions of Act 31 of 1948, as amended, and a Limited Tax Full Faith and Credit General Obligation Lease Contract between the county and the Authority. The lease provides that the county make cash rental payments to the Authority in amounts sufficient to pay principal and interest on bonds as they become due. Bonds mature serially 1991 through 2012 in annual amounts ranging from \$15,000 to 95,000, and at interest rates ranging from 7% to 9.50%. Principal and interest are payable semi-annually on April 1st and October 1st.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity April 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
6.60%	2004	\$ 45,000	\$ 40,385	\$ 85,385
6.7	2005	45,000	37,392	82,392
6.80	2006	55,000	34,015	89,015
6.90	2007	55,000	30,248	85,248
7.00	2008	60,000	26,250	86,250
7.00	2009	80,000	21,350	101,350
7.00	2010	85,000	15,575	100,575
7.00	2011	85,000	9,625	94,625
7.00	2012	95,000	3,325	98,325
Total		<u>\$ 605,000</u>	<u>\$218,165</u>	<u>\$823,165</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Otsego County Building Authority--1994-1 Series Bonds

Date of Issue: October 1, 1994

Amount: \$680,000

Purpose: The project consists of the remodeling, constructing, furnishing and/or equipping of the 4th floor, new elevators and a parking lot for the Alpine Center.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity April 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.55%	09/01/04	\$ 30,000	\$ 28,545	\$ 58,545
5.70	09/01/05	35,000	26,880	61,880
5.86	09/01/06	30,000	24,885	54,885
6.00	09/01/07	35,000	23,130	58,130
6.00	09/01/08	40,000	21,030	61,030
6.10	09/01/09	40,000	18,630	58,630
6.10	09/01/10	45,000	16,190	61,190
6.20	09/01/11	50,000	13,445	63,445
6.20	09/01/12	50,000	10,345	60,345
6.30	09/01/13	55,000	7,245	62,245
6.30	09/01/14	<u>60,000</u>	<u>3,780</u>	<u>63,780</u>
Total		<u>\$470,000</u>	<u>\$194,105</u>	<u>\$664,105</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Otsego County Building Authority--1995 Series Bonds

Date of Issue: January 1, 1995

Amount: \$4,450,000

Purpose: The project consists of acquiring and/or constructing, furnishing, and equipping a recreational and sports complex which would include an indoor ice skating rink and swimming pool.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity September 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.38%	09/01/04	\$ 475,000	\$ 84,686	\$ 559,686
5.40	09/01/05	520,000	59,155	579,155
5.50	09/01/06	<u>565,000</u>	<u>31,075</u>	<u>596,075</u>
Total		<u>\$1,560,000</u>	<u>\$174,916</u>	<u>\$1,734,916</u>

#### Otsego County Building Authority--1995-A Series Bonds

Date of Issue: November 1, 1995

Amount: \$325,000

Purpose: The project consists of acquiring and/or constructing, furnishing, and equipping a recreational and sports complex which would include an indoor ice skating rink and swimming pool.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity September 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
4.85%	09/01/04	\$15,000	\$ 1,218	\$16,218
4.90	09/01/05	<u>10,000</u>	<u>490</u>	<u>10,490</u>
Total		<u>\$25,000</u>	<u>\$ 1,708</u>	<u>\$26,708</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Otsego County Building Authority--2000 Series Bonds

Date of Issue: August 1,2000

Amount: \$3,000,000

Purpose: To finance and construct the county's portion of the cost of the University Center.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Principal May 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.00%	05/01/04	\$ 100,000	\$ 141,013	\$ 241,013
5.00	05/01/05	100,000	136,013	236,013
5.10	05/01/06	100,000	130,963	230,963
5.10	05/01/07	125,000	125,225	250,225
5.10	05/01/08	125,000	118,850	243,850
5.10	05/01/09	125,000	112,475	237,475
5.10	05/01/10	125,000	106,100	231,100
5.10	05/01/11	150,000	99,087	249,087
5.10	05/01/12	150,000	91,437	241,437
5.10	05/01/13	175,000	83,150	258,150
5.10	05/01/14	175,000	74,225	249,225
5.20	05/01/15	200,000	64,562	264,562
5.25	05/01/16	200,000	54,112	254,112
5.35	05/01/17	200,000	43,512	243,512
5.40	05/01/18	225,000	32,087	257,087
5.45	05/01/19	225,000	19,881	244,881
5.50	05/01/20	<u>250,000</u>	<u>6,875</u>	<u>256,875</u>
Total		<u>\$2,750,000</u>	<u>\$ 1,439,567</u>	<u>\$ 4,189,567</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Annual Principal and Interest Requirements--Road Commission--Component Unit

The annual requirements to pay the principal and interest on the Road Commission's direct long-term debt obligations outstanding at December 31, 2003 are as follows:

The Road Commission entered into a lease-purchase agreement for the purchase of road equipment on June 6, 2001. The initial debt is \$291,996 with interest accruing at 3.98%. The lease agreement requires 36 payments of \$8,618.29 per month with the final payment due on June 6, 2004.

Annual debt service requirements:

<u>Date of Maturity</u>	<u>Annual Principal May 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	<u>\$51,111</u>	<u>\$ 599</u>	<u>\$51,710</u>
Total	<u>\$51,111</u>	<u>\$ 599</u>	<u>\$51,710</u>

#### Annual Principal and Interest Requirements--Ambulance Corporation--Component Unit

The annual requirements to pay the principal and interest on the Ambulance's direct long-term debt obligations outstanding at December 31, 2003 are as follows:

#### Installment Purchase Agreement

Date: April 15, 2000

Amount: \$87,525

Purpose: Finance a McCoy Ambulance at 5.7% through Ford Motor Credit.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	<u>\$10,027</u>	<u>\$ 143</u>	<u>\$ 10,170</u>
Total	<u>\$10,027</u>	<u>\$ 143</u>	<u>\$ 10,170</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Date: July 24, 2000

Amount: \$152,000

Purpose: Finance a heavy-duty rescue truck at 6.0% through Ford Motor Credit.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	\$32,811	\$2,284	\$ 35,095
2005	<u>20,070</u>	<u>404</u>	<u>20,474</u>
Total	<u>\$52,881</u>	<u>\$2,688</u>	<u>\$ 55,569</u>

Installment Purchase Agreement

Date: October 25, 2001

Amount: \$10,895

Purpose: Finance a Scott SCBA pack belt.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	<u>\$ 2,997</u>	<u>\$ 97</u>	<u>\$ 3,094</u>
Total	<u>\$ 2,997</u>	<u>\$ 97</u>	<u>\$ 3,094</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Lease/Purchase Agreement--2002 Ambulance

Start Date: April 2002

Original Amount: \$115,000

Purpose: Finance lease/purchase one 2002 ambulance. Requires 60 monthly payments of \$2128.94 at an implied interest rate of 4.150% payable to First National Bank of Gaylord.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	\$22,610	\$2,937	\$25,547
2005	23,566	1,981	25,547
2006	24,563	984	25,547
2007	<u>10,324</u>	<u>105</u>	<u>10,429</u>
Total	<u><u>\$81,063</u></u>	<u><u>\$6,007</u></u>	<u><u>\$87,070</u></u>

#### Lease/Purchase Agreement--2003 Ambulance

Start Date: April 2003

Original Amount: \$82,321

Purpose: Finance lease/purchase one 2003 ambulance. Requires 59 monthly payments of \$1557.28 at an implied interest rate of 5.1% payable to Fifth Third Bank.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2004	\$16,637	\$3,607	\$20,244
2005	16,146	2,541	18,687
2006	16,989	1,698	18,687
2007	17,875	812	18,687
2008	<u>6,163</u>	<u>65</u>	<u>6,228</u>
Total	<u><u>\$73,810</u></u>	<u><u>\$8,723</u></u>	<u><u>\$82,533</u></u>



# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--COMPENSATED ABSENCES

#### Vested Employee Benefits Payable

The county has an accrued liability for accumulated vested vacation, compensatory time and sick leave benefits payable for its employees. As of December 31, 2003, the accumulated vested vacation, compensatory time and sick leave benefits of the employees of various county departments were as follows:

#### Vested Employee Benefits Payable--Primary Government

	Vacation 12/31/03	Sick 12/31/03	Compensatory 12/31/03	Total
Vested Employee Benefits Payable				
County General Employees	\$ 80,742		\$ 5,601	\$ 86,343
Court Employees	45,518		155	45,673
Airport	3,649			3,649
Library	3,245	\$ 41,220		44,465
Emergency 911	7,952		1,468	9,420
Housing Commission	312			312
Total Vested Employee Benefits Payable	<u>\$141,418</u>	<u>\$ 41,220</u>	<u>\$ 7,224</u>	<u>\$189,862</u>

Substantially all county employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon which labor contract the employee is subject to or upon which department or fund the employee is within. Accrued benefits for all governmental fund types are reported as long-term debt.

#### Vested Employee Benefits Payable--Bus System (Enterprise Fund)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which was credited on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2003 will be paid from current financial resources and is not recorded as a long-term liability.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--COMPENSATED ABSENCES (Continued)

#### Road Commission--Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2003, at current wage rates, amounted to \$55,908 and is reflected as a long-term liability. Sick leave is not vested and, accordingly, is not accrued.

### NOTE J--OPERATING LEASES

#### Primary Government Operating Leases

Commission on Aging--The Commission on Aging has an operating lease with Ricoh for the use of a copier. The monthly payment is \$375, with the lease agreement effective through April, 2006. Future lease obligations for the copier are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2004	\$ 4,500
2005	4,500
2006	1,500

The Commission on Aging entered into a sublease with Northwest Michigan Community Health Agency to rent the space commonly known as "Otsego Haus." The sublease terms beginning January 1, 2001 calls for monthly payments of \$1,620 or \$19,440 annually, and is renewable each year.

The Commission on Aging leases office and activities space from Alpine Alten Zimmer. The rent payment totals \$10,200 per year, and is renewable annually.

The Commission on Aging leases the Elkland Senior Center for both programmatic and social events. The rent payments total \$6,600 per year, and is renewable annually.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--EMPLOYEES' RETIREMENT SYSTEM

##### PRIMARY GOVERNMENT

##### Description of Plan and Plan Assets

Otsego County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-Union, Sheriff Non-Union, General-Local 1534 and Elected Officials is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The service requirement for and General-Local 214 is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of (FAC), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors, 46<sup>th</sup> Trial Court and the Sheriff-Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

Elected officials contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. No other groups are required to contribute a percentage of their annual compensation. The county's pension contributions of covered payroll for the period ending December 31, 2002 were 5.09% for General Non-Union, 6.17% for Sheriff Non-Union, 7.18% for General Local 214, 6.29% for General Local 1534, 1.95% for Elected Officials, 14.37% for Elected/Appointed Supervisors and 6.80 % for Sheriff Union, respectively.

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with 5% interest) are refunded to the member, if living, or to the member's beneficiary.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Annual Pension Cost

During the calendar year ended December 31, 2002, the county's contributions totaled \$684,352 and the employee contributions totaled \$4,536; these contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2000, and personnel agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 171,070	100%	\$0
2001	313,463	100%	\$0
2002	684,352	100%	\$0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2000	\$5,576,547	\$6,941,201	\$ 1,364,654	80%	\$3,701,558	37%
12/31/2001	6,912,361	9,617,600	2,705,239	72%	4,903,398	55%
12/31/2002	7,736,658	11,517,180	3,780,522	67%	5,382,956	70%

#### Road Commission--Component Unit

##### Plan Description

The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The Municipal Employees' Retirement System of Michigan (MERS) is a multi-employer statewide public employees retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed members to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 49817.

All full-time Road Commission employees are eligible to participate in the system. Benefits vest after 10 years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of the member's 5 year final average compensation. The system also provides death and disability benefits which are established by State statute.

#### Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2002. Significant actuarial assumptions used include a long-term investment yield rate of 8%; projected salary increases of 4.5% per year compounded annually, attributable to inflation; and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2002 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### GASB Statement No. 25 Information (as of December 31, 2002)

Actuarial Accrued Liability	
Retirees and Beneficiaries Currently	
Receiving Benefits	\$ 3,109,369
Terminated Employees Not Yet Receiving	
Benefits	92,995
Current Employees	
Accumulated Employee Contributions	
Including Allocated Investment Income	92,175
Employer Financed	<u>3,025,945</u>
Total Actuarial Accrued Liability	6,320,484
Net Assets Available for Benefits, at Actuarial	
Value (Market Value: \$4,215,149)	<u>5,304,571</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 1,015,913</u>

#### GASB Statement No. 27 Information (as December 31, 2002)

Fiscal Year Beginning	January 1, 2004
Annual Required Contribution (ARC)	\$169,068
Amortization Factor Used	0.053632

### Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2002 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

#### Annual Pension Cost

<u>Year</u> <u>Ended</u> <u>December 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2000	\$ 97,196	100%	0
2001	109,152	100%	0
2002	169,068	100%	0

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The Road Commission was required to contribute \$140,488 for the year ended December 31, 2003. Payments were based on contribution calculations made by MERS.

#### Aggregate Accrued Liabilities--Comparative Schedule

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2000	\$ 5,205,061	\$ 5,411,369	\$ 206,308	96%	\$ 1,338,791	15%
2001	5,319,357	5,570,544	251,187	95%	1,421,351	18%
2002	5,304,571	6,320,484	1,015,913	84%	1,492,215	68%

For the actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Appraisal assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2002 valuations.

### NOTE L--POST-EMPLOYMENT BENEFITS

#### Primary Government

Otsego County has agreed to pay \$200 per month toward hospitalization insurance for all employees and their spouses under the Sheriff-Union Agreement until the retiree reaches the eligible Medicare age. Otsego County will assume responsibility for payment of health insurance premiums for retired Otsego County employees, covered under the AFSCME agreement, receiving pension benefits and participating in the county sponsored health plan when they reach age 65. All other primary government employees of Otsego County do not receive post-employment benefits. The county does offer employees that leave employment with the county the option of prepaying the insurance premiums for health insurance. At December 31, 2003, there were 31 employees covered under the agreements for a cost of \$102,853. The county pays the insurance coverage premiums on a pay-as-you-go-basis.

#### Component Unit

The Road Commission, in addition to the pension benefits described in the pension Note K, provides post-retirement health care benefits. The Road Commission pays Blue Cross health premiums on a pay-as-you-go-basis for 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$169,800 for the year ended December 31, 2003.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE M--DEFERRED COMPENSATION PLAN

##### Primary Government

Otsego County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

##### Commission on Aging

The Otsego County Commission on Aging offers its employees a deferred compensation plan created in accordance with the IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

The Commission's liability to each participant is equal to the participant's deferred compensation adjusted by an amount equal to the investment performance in a related asset account. Investments are managed by a trustee, and investment decisions are made by individual employees. The Commission, through Otsego County, provides the duty of due care that would be required of an ordinary prudent investor.

The plan assets totaled \$120,261 as of September 30, 2003.

##### Component Unit--Road Commission

The Otsego County Road Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until terminations, retirement, death or unforeseeable emergency.

In the past, the Road Commission was custodian of the assets of the plan and therefore recorded the plan's activity in a trust fund in accordance with Statement No. 2 of the Government Accounting Standards Board (GASB). With the implementation of GASB Statement No. 32 and the Road Commission transferring custodianship of the plan to an independent party, balances for the deferred compensation plan are no longer reported in the financial statements.



## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE M--DEFERRED COMPENSATION PLAN (Continued)

##### Component Unit--Sportsplex

The Otsego County Sportsplex offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) Individual Retirement Account (IRA) in accordance with IRC Section 408(p). The plan, available to Sportsplex employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until terminations, retirement, death or unforeseeable emergency. The employer matches employee contributions up to 3% of the employees elected salary contribution.

#### NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

##### PRIMARY GOVERNMENT

The county is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The county participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members self-insurance retention limits along with certain other member-specific costs.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2003, the balance of the county's member retention was \$79,368.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

#### Workers' Compensation

The county is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2003, there were no claims that exceeded insurance coverage. The county had no significant reduction in insurance coverage from previous years.

Bus System--The Bus System is included in the county's insurance policies.

Commission on Aging--The Commission on Aging has insurance coverage provided by independent insurance companies for property, general liability, fire, workers' compensation and employee bond coverage. The Commission on Aging liability is normally limited to the deductible.

#### Component Unit-Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool) established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Otsego County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission has also self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2003, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

#### Component Unit--Ambulance Corporation

The Ambulance Corporation is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ambulance's general liability, property and vehicle insurance is included in the county's plan. Additional vehicle insurance, health insurance and workers' compensation is obtained through commercial insurance providers.

At December 31, 2003, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

#### Component Unit--Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the county's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2003, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE O--FEDERAL FINANCIAL ASSISTANCE

#### Road Commission--Component Unit

It is required by the Michigan Department of Transportation that Road Commissioners report total Federal financial assistance for highway research, planning and construction pertaining to their county. However, only the Federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The Federal revenue of \$757,073 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

### NOTE P--PRIOR PERIOD ADJUSTMENT

#### Primary Government

#### General Fund

During the year ended December 31, 2003, a prior period adjustment in the amount of \$6,863 was necessary to properly record the net prior year's non-recorded expenditures. The effect on the General Fund is as follows:

Fund Balance--Beginning of Year--as Previously Stated	\$ 914,990
Error in reporting Court MERS payment in prior year	(32,562)
Reclassification of Motor Pool Fund (Internal Service Fund in 2003) to General Fund for GASB 34 purposes	<u>39,425</u>
Fund Balance--Beginning of Year--as Restated	<u>\$ 921,853</u>

# COUNTY OF OTSEGO

## NOTES TO FINANCIAL STATEMENTS

### NOTE P--PRIOR PERIOD ADJUSTMENT (Continued)

#### University Center

During the year ended December 31, 2003, a prior period adjustment in the amount of \$65,433 was necessary to properly record the net prior year's non-recorded revenues and expenditures. The effect on the University Center Fund is as follows:

Fund Balance--Beginning of Year--as Previously Stated	\$ 271,145
Prior Period Adjustments	<u>65,433</u>
Fund Balance--Beginning of Year--as Restated	<u>\$ 336,578</u>

#### Commission on Aging

In prior years, the Schneider Trust Fund was reported as a fiduciary fund (non-expendable trust fund). During the current year, the fund is presented in the Commission on Aging (special revenue fund) as reported in the separately issued financial statements. The fund balance at September 30, 2002 was \$46,770. The effect on the Commission on Aging Fund is as follows:

Fund Balance--Beginning of Year--as Previously Stated	\$ 189,536
Prior Period Adjustments	<u>46,770</u>
Fund Balance--Beginning of Year--as Restated	<u>\$ 236,306</u>

#### Component Unit--Road Commission

In accordance with Government Accounting Standards Board Statement No. 34, the Otsego County Road Commission has accrued an additional month of Michigan Transportation Fund Payments. To avoid reporting 13 months of revenue in the current year, the prior year February payment has been treated as a prior period adjustment in the amount of \$233,496.

### NOTE Q--CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2003, the county implemented several new accounting standards issued by GASB:

## COUNTY OF OTSEGO

### NOTES TO FINANCIAL STATEMENTS

#### NOTE Q--CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34. Also implemented was Interpretation No. 6 Recognition and measurement of Certain Liabilities and Expenditures as of January 1, 2003.

#### NOTE R--STATE EQUIPMENT PURCHASE ADVANCE

##### Road Commission--Component Unit

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**OTSEGO COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT L**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes and Penalties	\$ 3,981,702	\$ 3,997,737	\$ 4,004,996	\$ 7,259
Licenses and Permits	108,250	111,150	105,339	(5,811)
Federal Grants	-	781,988	706,941	(75,047)
State Grants	813,360	1,241,264	1,075,834	(165,430)
Contributions From Local Units	-	2,394,097	2,153,225	(240,872)
Charges for Services	466,550	1,187,378	1,223,298	35,920
Fines and Forfeits	4,500	61,705	63,702	1,997
Interest and Rentals	145,975	174,342	120,073	(54,269)
Other Revenue	289,764	375,835	287,981	(87,854)
Total Revenues	5,810,101	10,325,496	9,741,389	\$ (584,107)
Expenditures				
Current				
Legislative	263,717	357,851	353,895	3,956
Judicial	-	4,188,325	4,103,800	84,525
Chief Executive	98,462	149,975	148,150	1,825
Financial and Tax Administration	709,214	722,430	717,851	4,579
Other General Government	1,146,674	1,091,910	1,098,599	(6,689)
Public Safety	1,647,509	1,977,646	1,959,133	18,513
Health and Welfare	422,785	437,464	437,003	461
Community and Economic Development	116,944	276,084	272,709	3,375
Other	357,340	681,243	672,272	8,971
Capital Outlay	6,150	35,119	34,852	267
Total Expenditures	4,768,795	9,918,047	9,798,264	119,783
Excess of Revenues Over (Under) Expenditures	1,041,306	407,449	(56,875)	(464,324)
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	19,500	41,598	41,154	(444)
Interfund Transfers (Out)	(531,306)	(583,543)	(583,543)	-
Total Other Financing Sources (Uses)	(511,806)	(541,945)	(542,389)	(444)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	529,500	(134,496)	(599,264)	(464,768)
Fund Balance--January 1, 2003	2,550	159,566	914,990	755,424
Restatement to Fund Balance			6,863	6,863
Fund Balance Restated--January 1, 2003	2,550	159,566	921,853	762,287
Fund Balance--December 31, 2003	\$ 532,050	\$ 25,070	\$ 322,589	\$ 297,519

**OTSEGO COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**PUBLIC IMPROVEMENT MAJOR SPECIAL REVENUE FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT M**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and Rentals		\$ 41,479	\$ 41,749	\$ 270
Other Revenue		-	4,327	4,327
Total Revenues	\$ -	41,479	46,076	4,597
Expenditures				
Current				
Capital Outlay	-	72,961	72,961	-
Total Expenditures	-	72,961	72,961	-
Excess of Revenues Over (Under) Expenditures	-	(31,482)	(26,885)	4,597
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	65,000	65,000	49,237	(15,763)
Interfund Transfers (Out)--Primary Government		(178,411)	(178,411)	-
Total Other Financing Sources (Uses)	65,000	(113,411)	(129,174)	(15,763)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	65,000	(144,893)	(156,059)	(11,166)
Fund Balance--January 1, 2003	65,000	274,893	2,395,299	2,120,406
Fund Balance--December 31, 2003	<u>\$ 130,000</u>	<u>\$ 130,000</u>	<u>\$ 2,239,240</u>	<u>\$ 2,109,240</u>



**OTSEGO COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**HOUSING COMMISSION MAJOR SPECIAL REVENUE FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT N**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants	\$ 249,130	\$ 249,130	\$ 324,168	\$ 75,038
Contributions From Local Units	-	-	39,430	39,430
Interest and Rentals	15,500	15,500	8,529	(6,971)
Other Revenue	89,346	89,346	58,132	(31,214)
Total Revenues	<u>353,976</u>	<u>353,976</u>	<u>430,259</u>	<u>76,283</u>
Expenditures				
Community and Economic Development	313,976	308,756	495,839	(187,083)
Capital Outlay		5,220	5,220	-
Total Expenditures	<u>313,976</u>	<u>313,976</u>	<u>501,059</u>	<u>(187,083)</u>
Excess of Revenues Over (Under) Expenditures	<u>40,000</u>	<u>40,000</u>	<u>(70,800)</u>	<u>(110,800)</u>
Other Financing Sources (Uses)				
Interfund Transfers (Out)	<u>(40,000)</u>	<u>(40,000)</u>		<u>40,000</u>
Total Other Financing Sources (Uses)	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>	<u>40,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(70,800)</u>	<u>(70,800)</u>
Fund Balance--January 1, 2003	<u>-</u>	<u>-</u>	<u>259,113</u>	<u>259,113</u>
Fund Balance--December 31, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,313</u>	<u>\$ 188,313</u>

OTSEGO COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2003

EXHIBIT O

	SPECIAL REVENUE FUNDS										
	Parks and Recreation	University Center of Gaylord	M-TEC	Friend of the Court	Otsego Lake Maintenance	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Economic Development Fund	Register of Deeds Automation Fund	Budget Stabilization Fund
<b><u>ASSETS</u></b>											
Cash	\$ 33,725	\$ 424,018	\$ 1,410	\$ 14,508	\$ 1,205	\$ 2,229	\$ 66,354	\$ 98,145	\$ 75,007	\$ 8,133	\$ 35,479
Investments	40,706		1,704	17,524	1,456	2,693	80,149	118,246		9,823	291,125
Taxes Receivable	248,369	561,182	651,403								
Accounts Receivable		3,258									
Due From State of Michigan				29,036							
Due From Federal Government											
Due From Other Funds		15,705		26,619							
Due From Other Governmental Units				33,195							
Inventory											
Prepaid Expense								725			
Total Assets	\$ 322,800	\$1,004,163	\$654,517	\$ 120,882	\$ 2,661	\$ 4,922	\$146,503	\$ 217,116	\$ 75,007	\$17,956	\$ 326,604
<b><u>LIABILITIES AND FUND BALANCES</u></b>											
Accounts Payable	\$ 1,220	\$ 35,104		\$ 1,965				\$ 5,123	\$ 179	\$ 4,739	
Due to Other Funds				3,090				974			
Due to Other Governmental Units				44,544							
Accrued Liabilities	1,186	3,471		292			\$ 51	2,779			
Advance From General Fund	23,333										
Advances From State											
Cash Bonds Payable											
Deferred Revenue	248,369	571,849	\$651,403								
Total Liabilities	274,108	610,424	651,403	49,891	\$ -	\$ -	51	8,876	179	4,739	\$ -
Fund Balances											
Reserved for											
Inventory											
Donations											
Debt Service											
Capital Expenditures											
Designated for Capital Improvements											
Unreserved--Undesignated	48,692	393,739	3,114	70,991	2,661	4,922	146,452	208,240	74,828	13,217	326,604
Total Fund Balances	48,692	393,739	3,114	70,991	2,661	4,922	146,452	208,240	74,828	13,217	326,604
Total Liabilities and Fund Balances	\$ 322,800	\$1,004,163	\$654,517	\$ 120,882	\$ 2,661	\$ 4,922	\$146,503	\$ 217,116	\$ 75,007	\$17,956	\$ 326,604

OTSEGO COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2003

EXHIBIT O  
(CONTINUED)

SPECIAL REVENUE FUNDS

	Victim Impact Panel	Emergency 911 Funds	Drug Law Enforcement Fund	Law Library	Library	Social Welfare FIA	Child Care Probate	Soldiers and Sailors Relief	Veterans Trust	Commission on Aging 9/30/2003
<b>ASSETS</b>										
Cash	\$ 572	\$ 19,430	\$ 313	\$ 7,684	\$ 74,179	\$ 28,088	\$ 46,239	\$ 806	\$ 378	\$ 206,863
Investments	690	142,643	377	9,282	464,794	15,551	55,851	973	457	48,323
Taxes Receivable					396,156					
Accounts Receivable		67,015					1,500			32,750
Due From State of Michigan						20,828	35,254			
Due From Federal Government										
Due From Other Funds					68,320					
Due From Other Governmental Units										
Inventory										505
Prepaid Expense		1,968								
Total Assets	\$ 1,262	\$ 231,056	\$ 690	\$ 16,966	\$ 1,003,449	\$ 64,467	\$ 138,844	\$ 1,779	\$ 835	\$ 288,441
<b>LIABILITIES AND FUND BALANCES</b>										
Accounts Payable		\$ 8,583		\$ 568	\$ 8,612	\$ 1,947	\$ 20,672	\$ 49		\$ 131
Due to Other Funds		4,100								
Due to Other Governmental Units										
Accrued Liabilities		1,972			2,158					14,549
Advance From General Fund										
Advances From State						50,000				
Cash Bonds Payable										
Deferred Revenue					396,156					
Total Liabilities	\$ -	14,655	\$ -	568	406,926	51,947	20,672	49	\$ -	14,680
Fund Balances										
Reserved for										
Inventory										
Donations						7,000				48,828
Debt Service										
Capital Expenditures										
Designated					337,867					62,705
Unreserved--Undesignated	1,262	216,401	690	16,398	258,656	5,520	118,172	1,730	835	162,228
Total Fund Balances	1,262	216,401	690	16,398	596,523	12,520	118,172	1,730	835	273,761
Total Liabilities and Fund Balances	\$ 1,262	\$ 231,056	\$ 690	\$ 16,966	\$ 1,003,449	\$ 64,467	\$ 138,844	\$ 1,779	\$ 835	\$ 288,441

OTSEGO COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2003

EXHIBIT O  
(CONTINUED)

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECT FUNDS					
	Airport	Bradford Lake	Equipment Revolving	Building Authority Refunding Debt	Animal Shelter Building Construction	Building Authority	Criminal Justice Building	Library Building	Court Restoration Building	Total
<b><u>ASSETS</u></b>										
Cash	\$ 8,229	\$ 8,271	\$ 13,508	\$ (96,517)	\$ 3,060	\$ (26,946)	\$ 78,484	\$ 15,934		\$ 1,148,788
Investments	9,698	9,990	16,315	223,456	3,696	18,032	94,800	184,778		1,863,132
Taxes Receivable										1,857,110
Accounts Receivable	8,653									113,176
Due From State of Michigan										85,118
Due From Federal Government										-
Due From Other Funds				1,677		26,995			\$ 58,346	197,662
Due From Other Governmental Units										33,195
Inventory	13,789									14,294
Prepaid Expense										2,693
Total Assets	\$ 40,369	\$ 18,261	\$ 29,823	\$ 128,616	\$ 6,756	\$ 18,081	\$ 173,284	\$ 200,712	\$ 58,346	\$ 5,315,246
<b><u>LIABILITIES AND FUND BALANCES</u></b>										
Accounts Payable	\$ 3,182		\$ 8,581						\$ 58,346	\$ 159,001
Due to Other Funds						\$ 15,705	\$ 26,995			50,864
Due to Other Governmental Units										44,544
Accrued Liabilities	1,241									27,699
Advance From General Fund										23,333
Advances From State										50,000
Cash Bonds Payable										-
Deferred Revenue										1,867,777
Total Liabilities	4,423	\$ -	8,581	\$ -	\$ -	15,705	26,995	\$ -	58,346	2,223,218
Fund Balances										
Reserved for										
Inventory	13,789									13,789
Donations										55,828
Debt Service				128,616						128,616
Capital Expenditures					6,756	2,376	146,289	200,712		356,133
Designated										400,572
Unreserved--Undesignated	22,157	18,261	21,242							2,137,012
Total Fund Balances	35,946	18,261	21,242	128,616	6,756	2,376	146,289	200,712	-	3,091,950
Total Liabilities and Fund Balances	\$ 40,369	\$ 18,261	\$ 29,823	\$ 128,616	\$ 6,756	\$ 18,081	\$ 173,284	\$ 200,712	\$ 58,346	\$ 5,315,168

OTSEGO COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2003

EXHIBIT P

	SPECIAL REVENUE FUNDS										
	Parks and Recreation	University Center of Gaylord	M-TEC	Friend of the Court	Otsego Lake Maintenance	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Economic Development Fund	Register of Deeds Automation Fund	Budget Stabilization Fund
Revenues											
Taxes	\$ 238,510	\$ 539,659	\$ 626,392								
Licenses and Permits								\$ 571,347			
Federal Grants				\$ 40,373			\$ 18,851				
State Grants				3,403							
Contributions From Local Units				33,381					\$ 28,200		
Charges for Services	150,394							559		\$ 52,990	
Fines and Forfeits				5,005							
Interest and Rentals	1,128	200,612			\$ 21			1,130	3,196	301	\$ 3,603
Other	1,080	15,422						-	9,450	-	-
Total Revenues	391,112	755,693	626,392	82,162	21	\$ -	18,851	573,036	40,846	53,291	3,603
Expenditures											
General Government				122,987							
Public Safety								500,466			
Public Works					2,197						
Health and Welfare							56,676				
Community and Economic Development			623,278						36,977		
Recreation and Cultural	321,860	388,069								-	-
Other											
Capital Outlay	2,774	60,495						14,594		40,074	-
Principal		11,122									-
Interest and Fees		358									-
Total Expenditures	324,634	460,044	623,278	122,987	2,197	-	56,676	515,060	36,977	40,074	-
Excess of Revenue Over (Under)											
Expenditures	66,478	295,649	3,114	(40,825)	(2,176)	-	(37,825)	57,976	3,869	13,217	3,603
Other Financing Sources (Uses)											
Interfund Transfers In--Primary Government		7,800			2,500				22,000	-	-
Interfund Transfers In--Component Unit											
Interfund Transfers (Out)--Primary Government		(246,288)					(19,000)				-
Total Other Financing Sources (Uses)	-	(238,488)	-	-	2,500	-	(19,000)	-	22,000	-	-
Excess of Revenues and Other Sources Over (Under)											
Expenditures and Other Uses	66,478	57,161	3,114	(40,825)	324	-	(56,825)	57,976	25,869	13,217	3,603
Fund Balance--January 1, 2003	(17,786)	271,145	-	111,816	2,337	4,922	203,277	150,264	48,959	-	323,001
Restatement to Fund Balance--January 1, 2003		65,433									
Restated Fund Balance--January 1, 2003	(17,786)	336,578	-	111,816	2,337	4,922	203,277	150,264	48,959	-	323,001
Fund Balance--December 31, 2003	\$ 48,692	\$ 393,739	\$ 3,114	\$ 70,991	\$ 2,661	\$ 4,922	\$ 146,452	\$ 208,240	\$ 74,828	\$ 13,217	\$ 326,604

OTSEGO COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2003

EXHIBIT P  
(CONTINUED)

	SPECIAL REVENUE FUNDS									
	Victim Impact Panel	Emergency 911 Funds	Drug Law Enforcement Fund	Law Library	Library	Social Welfare FIA	Child Care Probate	Soldiers and Sailors Relief	Veterans Trust	Commission on Aging 09/30/2003
Revenues										
Taxes					\$ 380,854					\$ 572,018
Licenses and Permits										172,606
Federal Grants										132,121
State Grants		\$ 19,165			25,374		\$ 252,421		\$ 3,447	
Contributions From Local Units										
Charges for Services		434,977			40,170					238,949
Fines and Forfeits				\$ 3,500	170,529					
Interest and Rentals		2,145			7,088	\$ 303				13,809
Other					21,475	195,185		\$ 1,000		3,797
Total Revenues	\$ -	456,287	\$ -	3,500	645,490	195,488	252,421	1,000	3,447	1,133,300
Expenditures										
General Government				9,226						
Public Safety		392,853								
Public Works			-							
Health and Welfare						201,939	481,371	5,747	3,195	1,083,754
Community and Economic Development	-									
Recreation and Cultural					537,249					
Other										
Capital Outlay		96,408			76,307					12,091
Principal										
Interest and Fees										
Total Expenditures	-	489,261	-	9,226	613,556	201,939	481,371	5,747	3,195	1,095,845
Excess of Revenue Over (Under)										
Expenditures	-	(32,974)	-	(5,726)	31,934	(6,451)	(228,950)	(4,747)	252	37,455
Other Financing Sources (Uses)										
Interfund Transfers In-Primary Government			-	10,000			325,000	6,000		
Interfund Transfers In-Component Unit										
Interfund Transfers (Out)-Primary Government	-	(26,400)			-					
Total Other Financing Sources (Uses)	-	(26,400)	-	10,000	-	-	325,000	6,000	-	-
Excess of Revenues and Other Sources Over (Under)										
Expenditures and Other Uses	-	(59,374)	-	4,274	31,934	(6,451)	96,050	1,253	252	37,455
Fund Balance--January 1, 2003	1,262	275,775	690	12,124	564,589	18,971	22,122	477	583	189,536
Restatement to Fund Balance--January 1, 2003										46,770
Restated Fund Balance--January 1, 2003	1,262	275,775	690	12,124	564,589	18,971	22,122	477	583	236,306
Fund Balance--December 31, 2003	\$ 1,262	\$ 216,401	\$ 690	\$ 16,398	\$ 596,523	\$ 12,520	\$ 118,172	\$ 1,730	\$ 835	\$ 273,761

OTSEGO COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2003

EXHIBIT P  
(CONTINUED)

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECT FUNDS					
	Airport	Bradford Lake	Equipment Revolving	Building Authority Refunding Debt	Animal Shelter	Building Authority	Criminal Justice Building	Library Building	Court Restoration Building	Total
Revenues										
Taxes										\$ 2,357,433
Licenses and Permits										571,347
Federal Grants										231,830
State Grants										435,931
Contributions From Local Units										61,581
Charges for Services	\$ 322,585									1,240,624
Fines and Forfeits										179,034
Interest and Rentals	71,765	\$ 159		\$ 149,543	\$ 140	\$ 418		\$ 2,024		457,385
Other	39,421		\$ 9,605		(3,768)					292,667
Total Revenues	433,771	159	9,605	149,543	(3,628)	418	\$ -	2,024	\$ -	5,827,832
Expenditures										
General Government			3,360	1,079		5,985	(3,580)			139,218
Public Safety			14,683							908,002
Public Works	516,986									519,183
Health and Welfare										1,832,682
Community and Economic Development										660,255
Recreation and Cultural										1,247,178
Other										-
Capital Outlay			52,657		35,160	98,120			147,447	636,127
Principal				630,000						641,122
Interest and Fees				331,686						332,044
Total Expenditures	516,986	-	70,700	962,765	35,160	104,105	(3,580)	-	147,447	6,915,811
Excess of Revenue Over (Under)										
Expenditures	(83,215)	159	(61,095)	(813,222)	(38,788)	(103,687)	3,580	2,024	(147,447)	(1,087,818)
Other Financing Sources (Uses)										
Interfund Transfers In-Primary Government	88,806	-	75,888	251,288	29,210	26,995	-		147,447	992,934
Interfund Transfers In-Component Unit				565,926						565,926
Interfund Transfers (Out)-Primary Government			(7,800)				(26,995)			(326,483)
Total Other Financing	88,806	-	68,088	817,214	29,210	26,995	(26,995)	-	147,447	1,232,377
Excess of Revenues and Other										
Sources Over (Under)										
Expenditures and Other Uses	5,591	159	6,993	3,992	(9,578)	(76,692)	(23,415)	2,024	-	144,559
Fund Balance--January 1, 2003	30,355	18,102	14,249	124,624	16,334	79,068	169,704	198,688	-	2,835,188
Restatement to Fund Balance--January 1, 2003										112,203
Restated Fund Balance--January 1, 2003	30,355	18,102	14,249	124,624	16,334	79,068	169,704	198,688	-	2,947,391
Fund Balance--December 31, 2003	\$ 35,946	\$ 18,261	\$ 21,242	\$ 128,616	\$ 6,756	\$ 2,376	\$ 146,289	\$ 200,712	\$ -	\$ 3,091,950

**OTSEGO COUNTY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**December 31, 2003**

**EXHIBIT Q**

	<b>BUSINESS-TYPE ACTIVITIES</b>				
	Global Positioning System Fund	Imaging Fund	Plat Book Fund	Jail Commissary	Total Non-Major Funds
<b><u>ASSETS</u></b>					
Current Assets					
Cash and Cash Equivalents	\$ 19,238		\$ (4,042)	\$ 8,715	\$ 23,911
Investments	23,237		(4,882)	10,526	28,881
Accounts Receivable			25,500		25,500
Total Current Assets	42,475	\$ -	16,576	19,241	78,292
Noncurrent Assets					
Capital Assets, Net of Accumulated Depreciation	4,820				4,820
Total Noncurrent Assets	4,820	-	-	-	4,820
Total Assets	\$ 47,295	\$ -	\$ 16,576	\$ 19,241	\$ 83,112
<b><u>LIABILITIES</u></b>					
Current Liabilities					
Accounts Payable			\$ 11,475	\$ 378	\$ 11,853
Total Current Liabilities	\$ -	\$ -	11,475	378	11,853
Total Liabilities	-	-	11,475	378	11,853
<b><u>NET ASSETS</u></b>					
Invested in Capital Assets, Net of Related Debt	4,820				4,820
Unrestricted	42,475		5,101	18,863	66,439
Total Net Assets	\$ 47,295	\$ -	\$ 5,101	\$ 18,863	\$ 71,259



**OTSEGO COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT R**

	<b>BUSINESS-TYPE ACTIVITIES</b>				
	Global Positioning System Fund	Imaging Fund	Plat Book Fund	Jail Commissary	Total Non-Major Enterprise Funds
Operating Revenues					
Charges for Services	\$ 43,156		\$ 25,500	\$ 18,767	\$ 87,423
Total Operating Revenues	43,156	\$ -	25,500	18,767	87,423
Operating Expenses					
Contractual Services	12,105		20,399		32,504
Materials and Supplies	3,832			17,400	21,232
Equipment Repair and Maintenance	2,995				2,995
Depreciation	24,577	39,252			63,829
Special Project	27,450				27,450
Total Operating Expenses	70,959	39,252	20,399	17,400	148,010
Operating Income (Loss)	(27,803)	(39,252)	5,101	1,367	(60,587)
Interfund Transfers					
Transfers In--Primary Government	14,000				14,000
Change in Net Assets	(13,803)	(39,252)	5,101	1,367	(46,587)
Total Net Assets--January 1, 2003	61,098	39,252	-	17,496	117,846
Total Net Assets--December 31, 2003	\$ 47,295	\$ -	\$ 5,101	\$ 18,863	\$ 71,259

**OTSEGO COUNTY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT S**

	<b>BUSINESS-TYPE ACTIVITIES</b>				
	Global Positioning System Fund	Imaging Fund	Plat Book Fund	Jail Commissary	Total Enterprise Funds
Cash Flows From Operating Activities					
Cash Received From Customers	\$ 43,156			\$ 18,767	\$ 61,923
Cash Payments to Suppliers for Goods and Services	(46,382)		\$ (8,924)	(18,860)	(74,166)
Net Cash Provided by Operating Activities	(3,226)	\$ -	(8,924)	(93)	(12,243)
Cash Flows From Noncapital Financing Activities					
Transfers In (Out)	14,000				14,000
Net Cash Provided by Noncapital Financing Activities	14,000	-	-	-	14,000
Cash Flows From Capital and Related Financing Activities					
Capital Assets Purchased	(7,000)				(7,000)
Net Cash Provided by Capital and Related Financing Activities	(7,000)	-	-	-	(7,000)
Cash Flows From Investing Activities					
Sale or (Purchase) of Investments	(5,433)		4,882	(1,632)	(2,183)
Net Cash Provided by Investing Activities	(5,433)	-	4,882	(1,632)	(2,183)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,659)	-	(4,042)	(1,725)	(7,426)
Cash and Cash Equivalents at Beginning of Year	20,897			10,440	31,337
Cash and Cash Equivalents at End of Year	\$ 19,238	\$ -	\$ (4,042)	\$ 8,715	\$ 23,911
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ (27,803)	\$ (39,252)	\$ 5,101	\$ 1,367	\$ (60,587)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	24,577	39,252			63,829
(Increase) Decrease in Accounts Receivable			(25,500)		(25,500)
Increase (Decrease) in Accounts Payable			11,475	(1,460)	10,015
Net Cash Provided by Operating Activities	\$ (3,226)	\$ -	\$ (8,924)	\$ (93)	\$ (12,243)

**OTSEGO COUNTY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**December 31, 2003**

**EXHIBIT T**

	<b>AGENCY FUNDS</b>			<b>OTHER EMPLOYEE BENEFIT FUND</b>	
	General Agency	Library (Penal Fines) Fund	Michigan Municipal Risk	Court Employee Retiree Health	Total
<b><u>ASSETS</u></b>					
Cash	\$ 537,204	\$30,943		\$ 106	\$ 568,253
Investments	648,882	37,377	\$79,368	216,272	981,899
Total Assets	<u>\$ 1,186,086</u>	<u>\$68,320</u>	<u>\$79,368</u>	<u>\$216,378</u>	<u>\$1,550,152</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
Liabilities					
Due to Other Funds		\$68,320			\$ 68,320
Due to State of Michigan	\$ 750,406				750,406
Due to Federal Government					-
Due to Schools and Colleges					-
Due to Townships					-
Undistributed Penal Fines and Interest					-
Undistributed Collections	347,223				347,223
Bonds Restitutions and Payable to Individuals	73,012				73,012
Other Trust Payable	15,445				15,445
Premium Deposits			\$79,368		79,368
Total Liabilities	<u>1,186,086</u>	<u>68,320</u>	<u>79,368</u>	<u>\$ -</u>	<u>1,333,774</u>
Fund Balances					
Unreserved					
Designated for Purposes of Trust				216,378	216,378
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>216,378</u>	<u>216,378</u>
Total Liabilities and Fund Balances	<u>\$ 1,186,086</u>	<u>\$68,320</u>	<u>\$79,368</u>	<u>\$216,378</u>	<u>\$1,550,152</u>

**OTSEGO COUNTY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS**  
**AND LIABILITIES--AGENCY FUNDS**  
**For the Year Ended December 31, 2003**

**EXHIBIT U**

	Balance 01/01/03	Additions	Deductions	Balance 12/31/03
<b><u>GENERAL AGENCY FUND</u></b>				
Assets				
Cash	\$ 849,886	\$ 24,068,194	\$24,380,876	\$ 537,204
Investments	724,112		75,230	648,882
Total Assets	<u>\$1,573,998</u>	<u>\$24,068,194</u>	<u>\$24,456,106</u>	<u>\$1,186,086</u>
Liabilities				
Due to State of Michigan	\$ 595,678	\$ 11,655,344	\$11,500,616	\$ 750,406
Due to Federal Government		1,616,624	1,616,624	-
Undistributed Tax Collections	900,597	6,750,265	7,303,639	347,223
Bonds Restitutions and Payable to Individuals	58,445	365,189	350,622	73,012
Other Trust Payable	19,278	3,706,697	3,710,530	15,445
Total Liabilities	<u>\$1,573,998</u>	<u>\$24,094,119</u>	<u>\$24,482,031</u>	<u>\$1,186,086</u>
<b><u>LIBRARY (PENAL FINES) FUND</u></b>				
Assets				
Cash	\$ 58,452	\$ 149,307	\$ 176,816	\$ 30,943
Investments	49,802		12,425	37,377
Total Assets	<u>\$ 108,254</u>	<u>\$ 149,307</u>	<u>\$ 189,241</u>	<u>\$ 68,320</u>
Liabilities				
Due to Other Funds	<u>\$ 108,254</u>	<u>\$ 149,307</u>	<u>\$ 189,241</u>	<u>\$ 68,320</u>
Total Liabilities	<u>\$ 108,254</u>	<u>\$ 149,307</u>	<u>\$ 189,241</u>	<u>\$ 68,320</u>
<b><u>MICHIGAN MUNICIPAL RISK</u></b>				
Assets				
Investments	\$ 34,831	\$ 44,537		\$ 79,368
Total Assets	<u>\$ 34,831</u>	<u>\$ 44,537</u>	<u>\$ -</u>	<u>\$ 79,368</u>
Liabilities				
Premium Deposits	\$ 34,831	\$ 44,537		\$ 79,368
Total Liabilities	<u>\$ 34,831</u>	<u>\$ 44,537</u>	<u>\$ -</u>	<u>\$ 79,368</u>

**OTSEGO COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT V**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Taxes and Penalties</b>				
Current Real Property Taxes	\$ 3,859,081	\$ 3,530,741	\$ 3,530,741	-
Delinquent Real Property Taxes	42,923	339,321	340,210	\$ 889
Delinquent Personal Property Taxes	-	47,977	50,752	2,775
Trailer Tax	1,700	1,700	1,294	(406)
Commercial Forest Tax	-	-	15	15
Payment-In-Lieu of Taxes	77,998	77,998	81,984	3,986
<b>Total Taxes and Penalties</b>	<b>3,981,702</b>	<b>3,997,737</b>	<b>4,004,996</b>	<b>7,259</b>
<b>Licenses and Permits</b>				
Sheriff Licenses--Permits	8,350	8,350	7,736	(614)
Marriage Licenses	1,000	3,900	3,605	(295)
Dog Licenses	37,000	37,000	38,554	1,554
Zoning Permits and Other Fees	56,000	56,000	51,085	(4,915)
Pistol Permits	5,900	5,900	4,359	(1,541)
<b>Total Licenses and Permits</b>	<b>108,250</b>	<b>111,150</b>	<b>105,339</b>	<b>(5,811)</b>
<b>Federal Grants</b>				
Homeland Security Grant	-	39,197	18,177	(21,020)
State Domestic Preparedness	-	36,889	36,889	-
Disaster Planning Grant	-	16,446	14,569	(1,877)
LEPC Grant	-	16,446	718	(15,728)
Emergency Services	-	11,648	10,490	(1,158)
Time Out	-	120,315	114,379	(5,936)
COPS Fast	-	-	2,883	2,883
CLEAN Grant	-	26,163	19,801	(6,362)
CRP--Friend of the Court	-	229,000	228,783	(217)
CRP--Prosecuting Attorney	-	26,000	25,968	(32)
ADC Incentive	-	9,044	9,044	-
Medical Incentive	-	21,340	5,672	(15,668)
JAIBG Grant	-	57,000	56,988	(12)
SPEG Grant	-	-	10,225	10,225
Link Michigan	-	172,500	152,355	(20,145)
<b>Total Federal Grants</b>	<b>-</b>	<b>781,988</b>	<b>706,941</b>	<b>(75,047)</b>
<b>State Grants</b>				
Marine Safety	-	11,770	11,768	(2)
Probate Judge Salary	-	94,195	94,195	-
Probate Judge Supplement	-	53,014	53,014	-
Circuit Judge Salary	-	53,602	53,602	-
District Judge Salary	-	1,448	1,448	-
CRP--Friend of the Court	-	23,073	31,443	8,370
CRP--Prosecuting Attorney	86,400	60,400	32,756	(27,644)
Emergency Services	11,648	-	-	-
Justice Training Grant	-	-	2,822	2,822
Motorcycle/Snowmobile Safety Grant	20,600	58,475	51,379	(7,096)
Off Road Vehicle Grant	2,900	2,900	-	(2,900)
Secondary Road Patrol	61,520	61,520	42,913	(18,607)
Court Funding--Jury Fee	-	153,425	153,425	-
JAIBG Grant	-	50,752	6,332	(44,420)
Criminal Justice Technology Reporting	-	-	5,369	5,369
Cigarette Tax	12,128	12,128	14,013	1,885
Convention Facilities Liquor Tax	127,960	131,237	131,237	-
Voters Registration	500	500	396	(104)
State Revenue Sharing	450,000	433,121	402,975	(30,146)
State Survey Remonumentation	39,704	39,704	(13,253)	(52,957)
<b>Total State Grants</b>	<b>813,360</b>	<b>1,241,264</b>	<b>1,075,834</b>	<b>(165,430)</b>

**OTSEGO COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT V**  
**(CONTINUED)**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Contributions From Local Units--Counties	-	2,394,097	2,153,225	(240,872)
Charges for Services				
Computer Department	500	500	3,397	2,897
Circuit Court Costs	-	17,124	17,124	-
Circuit Court Fees	-	25,746	25,746	-
District Court Costs	-	365,613	365,612	(1)
District Court Fees	-	152,083	152,083	-
Friend of the Court Services	-	16,900	16,900	-
Probate Court Costs	-	11,786	11,786	-
Probate Court Fees	-	21,986	21,986	-
Clerk/Register of Deed's Services	254,700	337,157	351,690	14,533
Transfer Tax	134,000	134,000	122,448	(11,552)
Equalization Department	6,500	34,254	34,254	-
Treasurer Services	2,100	2,100	1,902	(198)
Building and Grounds	3,900	3,279	849	(2,430)
Forensic Lab Fee	-	-	302	302
Sheriff Services	41,650	41,650	39,976	(1,674)
Jail	13,000	13,000	43,845	30,845
Prisoner's Room and Board	2,000	2,000	2,220	220
Animal Control Services	5,500	5,500	7,960	2,460
Planning and Zoning Court Costs	200	200	581	381
Planning and Zoning Services	2,000	2,000	2,637	637
Duplicating	500	500	-	(500)
Total Charges for Services	466,550	1,187,378	1,223,298	35,920
Fines and Forfeits				
Bond Forfeiture	-	22,281	22,281	-
District Court Fines and Forfeitures	-	34,749	34,750	1
Dog Damage and Fines	4,500	4,500	6,551	2,051
Non-Sufficient Funds Fine	-	175	120	(55)
Total Fines and Forfeits	4,500	61,705	63,702	1,997
Interest and Rents				
Interest Earned	100,000	100,367	46,810	(53,557)
Rentals	45,975	73,975	73,263	(712)
Total Interest and Rents	145,975	174,342	120,073	(54,269)
Other Revenues				
Contributions/Donations	100	30,792	33,044	2,252
Drunk Driving Caseflow	-	9,691	9,691	-
Reimbursements	288,664	329,447	242,232	(87,215)
Other	1,000	2,205	2,654	449
Sale of Fixed Assets	-	3,700	360	(3,340)
Total Other Revenues	289,764	375,835	287,981	(87,854)
Total Revenue	5,810,101	10,325,496	9,741,389	(584,107)
Other Financing Sources				
Gypsy Moth Control	15,000	15,000	15,000	-
Joint Building Authority	-	1,754	1,754	-
Motor Pool Fund	4,500	12,500	-	(12,500)
Delinquent Tax Revolving Fund	-	-	8,000	8,000
911 Fund	-	12,344	16,400	4,056
Total Other Financing Sources	19,500	41,598	41,154	(444)
Total Revenues and Other Financing Sources	\$ 5,829,601	\$ 10,367,094	\$ 9,782,543	\$ (584,551)

**OTSEGO COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT W**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Legislative				
Board of Commissioners	\$ 263,717	\$ 345,851	\$ 342,354	\$ 3,497
Administrator Search	-	12,000	11,541	459
Total Legislative	263,717	357,851	353,895	3,956
Judicial				
Circuit Court	-	371,639	371,574	65
46th Trial Court	-	2,556,770	2,475,682	81,088
District Court--East	-	210,055	207,996	2,059
Friend of the Court	-	735,636	735,139	497
FOC Medical Support	-	6,460	5,996	464
Jury Commission	-	6,625	6,431	194
Probate Court	-	297,303	297,303	-
Family Counseling	-	3,837	3,679	158
Total Judicial	-	4,188,325	4,103,800	84,525
Chief Executive				
Administrator	98,462	149,975	148,150	1,825
Financial and Tax Administration				
Clerk and Register of Deeds	329,077	293,502	291,869	1,633
Equalization	178,994	218,240	217,065	1,175
Treasurer	201,143	210,688	208,917	1,771
Total Financial and Tax Administration	709,214	722,430	717,851	4,579
Other General Government				
Prosecuting Attorney	373,942	388,934	385,577	3,357
State Survey and Remonumentation	39,704	5,844	4,516	1,328
State Domestic Preparedness	-	-	18,177	(18,177)
Motor Pool	-	-	6,559	(6,559)
Cooperative Extension	65,311	57,939	47,771	10,168
Elections	-	575	557	18
Joint Building Authority	154,488	151,823	151,637	186
Building and Grounds	273,586	258,123	256,519	1,604
Computer Department	138,250	128,087	127,088	999
Switchboard and Postage Meter	83,193	82,703	82,426	277
Soil Conservation	4,000	4,000	4,000	-
Surveyor	200	-	-	-
Duplicating	14,000	13,882	13,772	110
Total Other General Government	1,146,674	1,091,910	1,098,599	(6,689)
Total General Government	2,218,067	6,510,491	6,422,295	88,196

**OTSEGO COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT W**  
**(CONTINUED)**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Public Safety				
Sheriff	679,598	676,403	673,101	3,302
Sheriff Civil Division	49,955	25,907	25,711	196
Justice Training	2,550	4,356	687	3,669
Marine Safety	-	-	-	-
Motorcycle Safety Education	20,600	38,913	38,577	336
Snowmobile	-	-	-	-
Secondary Road Patrol	61,520	65,455	64,728	727
Off Road Vehicle Enforcement	3,868	-	-	-
Jail	696,055	931,307	923,176	8,131
Animal Control	110,068	144,158	143,612	546
Emergency Services	23,295	91,147	89,541	1,606
Total Public Safety	1,647,509	1,977,646	1,959,133	18,513
Health and Welfare				
Communicable Diseases	500	30	15	15
Medical Examiner	44,300	56,467	56,188	279
District Health	171,364	172,735	172,695	40
Mental Health	94,003	94,003	94,003	-
Veterans' Burial	7,000	8,894	8,852	42
Veterans' Affairs	41,728	39,716	39,631	85
Substance Abuse	63,890	65,619	65,619	-
Total Health and Welfare	422,785	437,464	437,003	461
Community and Economic Development				
Planning and Zoning	116,944	107,395	105,930	1,465
Link Michigan	-	168,689	166,779	1,910
Chamber of Commerce	-	-	-	-
Total Community and Economic Development	116,944	276,084	272,709	3,375
Recreation and Cultural	-	-	-	-
Other				
Bonds and Insurance	260,000	400,814	396,712	4,102
Retiree Insurance	97,340	119,012	118,846	166
Insurance Reimbursements	-	161,417	156,714	4,703
Total Other	357,340	681,243	672,272	8,971



**OTSEGO COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2003**

**EXHIBIT W**  
**(CONTINUED)**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Capital Outlay				
Circuit Court	-	6,338	6,338	-
46th Trial Court	-	2,962	2,962	-
Probate Court	-	-	-	-
Clerk	-	4,000	4,000	-
Prosecuting Attorney	750	750	750	-
Treasurer	400	400	400	-
Joint Building Authority	5,000	172	-	172
Building and Grounds	-	-	-	-
Sheriff	-	-	-	-
Motorcycle Safety Education	-	20,497	20,402	95
Total Capital Outlay	6,150	35,119	34,852	267
Total Expenditures	4,768,795	9,918,047	9,798,264	119,783
Other Financing Uses				
Interfund Transfers (Out)				
Parks and Recreation	-	-	-	-
Otsego Lake Maintenance	2,500	2,500	2,500	-
Economic Alliance	22,000	22,000	22,000	-
Law Library	10,000	10,000	10,000	-
Child Care	325,000	325,000	325,000	-
Soliders' and Sailors' Relief	3,000	6,000	6,000	-
Building Authority	5,000	5,000	5,000	-
Airport	88,806	88,806	88,806	-
Motor Pool	-	-	-	-
Equipment Fund	75,000	75,000	75,000	-
Public Improvement	-	49,237	49,237	-
Court Retirement	-	-	-	-
Total Other Financing Uses	531,306	583,543	583,543	-
Total Expenditures and Other Financing Uses	\$ 5,300,101	\$ 10,501,590	\$ 10,381,807	\$ 119,783

**OTSEGO COUNTY AMBULANCE CORPS, INC.**  
**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS**  
**December 31, 2003**

**EXHIBIT X**

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 18,247		\$ 18,247
Investments	14,440		14,440
Taxes Receivable	397,946		397,946
Accounts Receivable	243,757		243,757
Capital Assets (Net of Accumulated Depreciation)		\$ 824,421	824,421
Total Assets	<u>\$ 674,390</u>	<u>\$ 824,421</u>	<u>\$ 1,498,811</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ 3,222		\$ 3,222
Accrued Wages Payable	54,999		54,999
Advances--Due to Primary Government	20,325		20,325
Installment Purchase Agreement Payable--Current Year		\$ 75,492	75,492
Deferred Revenue--Taxes Receivable	397,946		397,946
Deferred Revenue--Accounts Receivable	117,118	(117,118)	-
Non-Current Liabilities			
Installment Purchase Agreement Payable--Due After One Year		145,286	145,286
Advances--Due to Primary Government	66,125		66,125
Total Liabilities	<u>659,735</u>	<u>103,660</u>	<u>763,395</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances--Unreserved	<u>14,655</u>		
Total Fund Equities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 674,390</u>		
Net Assets			
Invested in Capital Assets--Net of Related Debt			517,193
Restricted			218,223
Unrestricted			
Total Net Assets		<u>\$ -</u>	<u>\$ 735,416</u>

**OTSEGO COUNTY AMBULANCE CORPS, INC.**  
**STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2003**

**EXHIBIT Y**

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Property Taxes	\$ 384,027		\$ 384,027
Federal Grants	26,235		26,235
Charges for Services	929,036	\$ 117,118	1,046,154
Interest and Rents	1,266		1,266
Other Revenues	4,311		4,311
Total Revenue	1,344,875	117,118	1,461,993
Expenditures			
Health and Welfare	1,270,006	218,931	1,488,937
Capital Outlay	169,132	(169,132)	-
Debt Service			
Principal	90,665	(90,665)	-
Interest	13,527		13,527
Total Expenditures	1,543,330	(40,866)	1,502,464
Excess of Revenue Over (Under) Expenditures	(198,455)	157,984	(40,471)
Other Financing Sources			
Proceeds From Lease Purchase Agreements	82,321	(82,321)	-
Total Other Financing Sources	82,321	(82,321)	-
Excess of Revenues and Other Financing Sources Over Expenditures	(116,134)		(116,134)
Change in Net Assets		75,663	75,663
Fund Balance/Net Assets--Beginning of Year	130,789		775,887
Fund Balance/Net Assets--End of Year	\$ 14,655	\$ 75,663	\$ 735,416

**OTSEGO COUNTY HOUSING COMMISSION**  
**(Grantee Name)**

**Grant No. MSC-2000-0812-HOA**

**Application of State Block Grant Funds**  
**Michigan Community Development Block Grant**

**For the Grant Period August 1, 2000 through December 31, 2002**  
**As of December 31, 2003**

<u><b>Activity</b></u>	Authorized Costs	Actual Costs	Variance Under (Over)
Village HO Rehab.	\$ 120,655	\$ 50,509	\$ 70,146
Village HO Emerg.	12,600	7,748	4,852
Village HO Replacement	23,745	23,745	-
Village Public Improvement	53,000	57,998	(4,998)
Village Beautification	22,000	17,002	4,998
Village Rental Rehabilitation	68,000	39,962	28,038
Village Administration	65,800	35,453	30,347
County HO Rehab.	183,100	159,418	23,682
Emergency Repairs	22,150	12,200	9,950
HB-Acq.	10,000	10,000	-
Administrative	47,250	23,864	23,386
Subtotal	628,300	437,899	190,401
<u><b>Other Funds/Sources</b></u>			
Matching Funds	121,125	211,922	(90,797)
Subtotal	121,125	211,922	(90,797)
Total	\$ 749,425	\$ 649,821	\$ 99,604

**SCHEDULE 2****OTSEGO COUNTY HOUSING COMMISSION  
(Grantee Name)****Grant No. MSC-2003-0812-HOA****Application of State Block Grant Funds  
Michigan Community Development Block Grant****For the Grant Period January 1, 2003 through December 31, 2004  
As of December 31, 2003**

<b><u>Activity</u></b>	<b>Authorized Costs</b>	<b>Actual Costs</b>	<b>Variance Under (Over)</b>
HO Rehab.	\$ 139,250	\$ 119,336	\$ 19,914
HO Emergency	21,000	19,468	1,532
HO Replacement	25,000	25,000	-
Homebuyer Acquisition	30,000	30,000	-
Administrative	47,250	12,852	34,398
Subtotal	262,500	206,656	55,844
<b><u>Other Funds/Sources</u></b>			
Matching Funds	53,813	273,890	(220,077)
Subtotal	53,813	273,890	(220,077)
Total	\$ 316,313	\$ 480,546	\$ (164,233)

**OTSEGO COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)**  
**For the Year Ended December 31, 2003**

**SCHEDULE 3**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Pass-Through Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<b><u>PRIMARY GOVERNMENT</u></b>				
<b>US DEPARTMENT OF AGRICULTURE</b>				
Passed Through Michigan Department of Agriculture Gypsy Moth Program	10.664	(3)	\$ 18,851	\$ 18,851
Passed Through Northeast Michigan Community Service Agency, Inc. Commodity Supplemental Food Program	10.565	(3)	914	914
Nutrition Services Incentive-Title III C1	10.570	(3)	13,731	13,731
Nutrition Services Incentive-Title III C2	10.570	(3)	8,410	8,410
Total US Department of Agriculture			41,906	41,906
<b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Passed Through Michigan Economic Development Corporation Link Michigan Regional Telecommunications Planning Project	14.228	MSC 201076-LMRP	152,355	152,355
Passed Through Michigan State Housing Development Authority Community Development Block Grant	14.228	Program Income	38,039	38,249
Community Development Block Grant	14.228	MSC-2003-0812-HOA	206,656	206,656
Community Development Block Grant	14.228	MSC-2000-0812-HOA	117,512	117,512
Total US Department of Housing and Urban Development			514,562	514,772
<b>US DEPARTMENT OF JUSTICE</b>				
Passed Through the Michigan Family Independence Agency Juvenile Accountability Incentive Block Grant	16.523	JABGN 02-69001	4,704	4,704
Juvenile Accountability Incentive Block Grant	16.523	JABGN 03-69001	52,284	52,284
Passed Through the Michigan Department of Community Health Byrne Memorial Formula Grants	16.579	70883-4K02	19,801	19,801
Byrne Memorial Formula Grants	16.579	70916-3K02	99,173	99,173
Byrne Memorial Formula Grants	16.579	20040739	15,206	15,206
Passed through the Office of Community Oriented Policing Services Cops Fast Program	16.710	1995CFWX1015	2,883	(4)
Total US Department of Justice			194,051	191,168
<b>US DEPARTMENT OF TRANSPORTATION</b>				
Passed Through Michigan Department of Transportation Airport Infrastructure	20.106	B-26-0036-1203	2,561,875	(5)
Capital/Facility Assistance (Section 5309)	20.500	2002-0079-Z3	296,864	296,864
Operating Assistance--Section 5311	20.509	2002-0079-Z4	133,017	133,017
Rural Transit Assistance Program	20.509	2002-0079-Z5	2,800	2,800
Passed Through Michigan Department of State Police Hazardous Materials Emergency Preparedness Training and Planning Grants	20.703	(3)	718	718
Total US Department of Transportation			2,995,274	433,399
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed Through Michigan Family Independence Agency Title IV-D, Child Support Enforcement ADC Incentive Program	93.558	(3)	9,044	(7)
Cooperative Reimbursement Program	93.563	CS/MED-04-69001-1	1,190	1,190
Cooperative Reimbursement Program	93.563	CS/MED-03-69001-1	4,482	4,482
Cooperative Reimbursement Program	93.563	CS/PA-01-69002	384	(6)
Cooperative Reimbursement Program	93.563	CS/PA-03-69002	21,057	21,057
Cooperative Reimbursement Program	93.563	CS/PA-04-69002	4,527	4,527
Cooperative Reimbursement Program	93.563	CS/FOC-01-69001	7,577	(6)
Cooperative Reimbursement Program	93.563	CS/FOC-03-69001-1	195,002	195,002
Cooperative Reimbursement Program	93.563	CS/FOC-04-69001-1	66,577	66,577

**OTSEGO COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)**  
**For the Year Ended December 31, 2003**

**SCHEDULE 3**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Pass-Through Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
Passed Through Michigan Office of Services to the Aging				
Passed Through Northeast Michigan Community Service Agency, Inc.				
Special Programs for the Aging				
Title III Part B--Supportive Services and Senior Centers				
Respite	93.044	(3)	1,909	1,909
Respite--Program Income	93.044	(3)	460	460
Homemaker	93.044	(3)	10,366	10,366
Homemaker-Program Income	93.044	(3)	5,785	5,785
Personal Care	93.044	(3)	9,218	9,218
Personal Care-Program Income	93.044	(3)	2,016	2,016
Title III Part C--Nutrition Services				
Congregate Meals	93.045	(3)	25,707	25,707
Congregate Meals-Program Income	93.045	(3)	40,223	40,223
Home Delivered Meals	93.045	(3)	7,855	7,855
Home Delivered Meals-Program Income	93.045	(3)	14,096	14,096
Title III Part E-National Family Caregiver Support				
Respite "Up and Go"	93.052	(3)	7,000	7,000
Respite "Up and Go"-Program Income	93.052	(3)	152	152
Health Resource Center	93.052	(3)	4,700	4,700
Student Intern	93.052	(3)	6,500	6,500
Care Giver Support	93.052	(3)	2,210	2,210
Medicaid Waiver	93.778	(3)	11,354	11,354
<b>Total US Department of Health and Human Services</b>			<u>459,391</u>	<u>442,386</u>
<b>US DEPARTMENT OF HOMELAND SECURITY</b>				
Passed Through Michigan Department of State Police				
2000 State Domestic Preparedness Equipment Grant	97.004	(3)	10,225	10,225
2002 State Domestic Preparedness Equipment Grant	97.004	(3)	36,889	36,889
State Homeland Security Grant Program	97.004	(3)	18,177	18,177
Emergency Management Performance Grant	97.042	(3)	10,490	10,490
Supplemental Planning Grant	97.051	(3)	14,569	14,569
<b>Total US Department of Homeland Security</b>			<u>90,350</u>	<u>90,350</u>
<b>TOTAL PRIMARY GOVERNMENT</b>			<u>\$ 4,295,534</u>	<u>\$ 1,713,981</u>
<b><u>COMPONENT UNIT-AMBULANCE</u></b>				
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed Through Michigan Center for Rural Health				
Rural Health Initiative				
Federal Rural AED Grant Program	93.259	(3)	\$ 26,235	\$ 26,235
<b>Total US Department of Health and Human Services</b>			<u>\$ 26,235</u>	<u>\$ 26,235</u>
<b>TOTAL REPORTING ENTITY FEDERAL ASSISTANCE</b>			<u>\$ 4,321,769</u>	<u>\$ 1,740,216</u>

See the Accompanying Notes to the Schedule of Expenditures of Federal Awards.

OTSEGO COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2003

- (1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Otsego County. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.

It is required by the Michigan Department of Transportation (MDOT) that road commissions report total Federal financial assistance for highway research, planning and construction pertaining to their county. However, only the Federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through road commission procurement. The reason for this requirement is that the road commission is required to have accounting and administrative control over the force account (negotiated) contracts while, all other contracts are administered by the Michigan Department of Transportation. During 2003, the Road Commission (Component Unit) received and expended \$757,073 in Federal Highway grant money where the work was performed by contractors that were paid directly from the State, which is included in the State's single audit.

- (2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the county's financial statements.
- (3) Pass-through grantor's number was not available.
- (4) Revenue from this grant was received for a reimbursement request that was not received in 1999, therefore, no related expenditures exist.
- (5) It is required by the MDOT that airports report total Federal financial assistance for airport planning and construction pertaining to their county. Only Federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through airport procurement. The reason for this requirement is that the airport is required to have accounting and administrative control over the force account (negotiated) contracts while, all other contracts are administered by the MDOT. During 2003, the Otsego County Airport received and expended \$2,561,875 in Federal Highway grant money where the work was performed by contractors paid directly from the State, which is included in the State's single audit.
- (6) The revenue received was for prior adjustments made by the Michigan Family Independence Agency with no current expenses attributable to the programs.
- (7) Revenue from this grant is based on collection effort only, with no directly related expenditures.



**Otsego County**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2003**

**Section I--Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- |   |                 |     |                 |    |
|---|-----------------|-----|-----------------|----|
| • Material weakness(es) identified?   | <u>✓</u>        | Yes | <u>        </u> | No |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u>✓</u>        | Yes | <u>        </u> |    |
| • Noncompliance material to financial statements noted?                                 | <u>        </u> | Yes | <u>✓</u>        | No |

*Federal Awards*

Internal control over major programs:

- |   |                 |     |                 |               |
|---|-----------------|-----|-----------------|---------------|
| • Material weakness(es) identified?   | <u>✓</u>        | Yes | <u>        </u> | No            |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u>        </u> | Yes | <u>✓</u>        | None reported |

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are  
 Required to be reported in accordance with  
 section 510(a) of Circular A-133?

<u>        </u>	Yes	<u>✓</u>	No
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**Otsego County**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2003**

**Section I--Summary of Auditor's Results**  
**(Continued)**

Identification of Major Programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
16.579	Byrne Memorial Formula Grants
20.500	Capital/Facility Assistance (Section 5309)
20.500	Operating Assistance (Section 5311)
93.563	Child Support Enforcement Title IV-D

Dollar threshold used to distinguish  
Between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes ✓ No

**Section II--Financial Statement Findings**

**MATERIAL WEAKNESSES**

The following conditions are considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements in amounts that would be material in relation to the financial statements.

**Treasurer--Common Account Reconciliation**

*Finding 03-01*

*Condition:* Since the discontinuance of the sweep account for vendor payments and the re-establishment of a separate account for these payments, the general checking account monthly reconciliations continue to show variances with the general ledger. The unexplained variance dates back to 2001 and has not been fully resolved as of the audit date. We also found that the reconciliation procedures employed by the treasurer's office are unnecessarily complex. The reconciliation reconciles the book to bank instead of the adjusted bank to the book balance.

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

**MATERIAL WEAKNESSES** (Continued)

*Criteria:* Strong internal controls suggest that bank accounts be reconciled on a timely basis. **Physical Control Over Vulnerable Assets:** All local governmental units must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to the risk of loss or unauthorized use. Such assets should be periodically counted and reconciled to control records.

*Recommendation:* We recommend that procedures be established that fully reconcile all bank accounts to the general ledger on a monthly basis. Additionally, we recommend that the treasurer establish sub-accounts of the cash and investment accounts that reconcile to the individual bank or institution accounts. Currently, several bank accounts may reconcile to a single general ledger account. This requires that each journal entry affecting a bank account be tracked on a set of complex spreadsheets.

- **Contact Person(s) Responsible for Correction**  
Diann Axford, County Treasurer
- **Corrective Action Planned**  
I am new in the responsibilities of this office for 2004. The bank statements will be brought up to date (as of this time they are) and kept up to date. I am in the process of creating subaccounts as recommended to speed up and simplify the process of balancing the general ledger with the bank statements.
- **Anticipated Completion Date**  
By the end of the year 2004.

**Board of Commissioners--Discretely Presented Component Unit  
University Center**

*Finding 03-02*

*Condition:* On December 7, 1999, the voters approved a tax levy of .56 mills for the purpose of providing funds for the construction, equipping, furnishing, and operation of a building for the Alpine Regional Educational Center (now referred to as the University Center at Gaylord). The county contracted with the University Center, Inc., (a non-profit 501(c)3 Michigan corporation) to “occupy and operate” the University Center at Gaylord for the county.

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

MATERIAL WEAKNESSES (Continued)

University Center, Inc., operates various educational programs for which fees are charged. Income generated from these programs pays for expenditures that are recorded on their accounting records. Some of the expenditures are vouched to the county and paid for from tax revenues. The county millage is used for all building related expenditures. The payments by the county of program expenditures to the University Center, Inc., demonstrates fiscal dependency as defined by Governmental Accounting Standards Board (GASB) Statement No. 14 and pending amendments by Statement No. 39. As such, the University Center, Inc., is a component unit of the county and should be recorded in the county's financial records. The county has not maintained complete financial records of this activity. The beginning fund balance (1/1/03) was restated by \$65,433 to record the net prior year's non-recorded revenues and expenditures. During 2003, there were additional revenues of \$194,690 and expenditures of \$180,184 which resulted in additional cash of \$38,088, additional liabilities of \$23,582 and an increase in fund balance by \$14,506.

*Criteria:* GASB Codification 2100.126b states: "An organization has a financial benefit or burden relationship with the primary government if ...[this] condition exists: The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization." GASB Codification 2100.120a, includes this as a criteria for determining "financial accountability." GASB Codification 2100.119 defines, "Component Units are legally separate organizations for which the elected officials of the primary government are financially accountable." MCL 48.40 states, "It shall be the duty of the county treasurer to receive all moneys belonging to the county, from whatever source they may be derived..."

*Recommendation:* We recommend that the county implement controls and procedures to account for the complete financial activity of the University Center, Inc. We recommend that all funds held by the University Center, Inc., be turned over to the county treasurer and accounted for in the separate fund currently used to account for payments to the University Center, Inc. We recommend separate activities be use to account for the program and building expenditures.

- Contact Person(s) Responsible for Correction  
Denise Koning, County Administrator
- Corrective Action Planned:  
This repeat comment is no longer applicable. The University Center provided access to all records. Management was not notified of any issues or problems with providing an unqualified opinion.
- Anticipated Completion Date  
N/A

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

**MATERIAL WEAKNESSES** (Continued)

Addendum: While the University Center provided access to all records, the county did not make all the entries to the general ledger of the county to record all of the activity of the University Center and thereby does not have a complete accounting for the University Center. The county also had recorded entries to their records that the University Center had not recorded in their accounting records. Numerous hours were spent reconciling the records to each other and the bank accounts.

**Federal and State Grant Recognition**

*Finding 03-03*

*Condition:* Many departments receive Federal and/or State grants and maintain supporting documentation for the respective grants. The county does not have a central location for grant agreements and financial status reports. Some grants provide capital assets instead of cash to the county and have a potential to not be recorded in the accounting records. Documentation for some Federal grants did not include the CFDA number.

*Criteria:* Office of Management and Budget (OMB) Circular A-133 Subpart C states: "Recipients of federal aid shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records.

Appropriate documentation of transactions should be accessible to those with accountability for resources and financial records.

*Cause and Effect:* As a result of not having a central location and one person responsible for overseeing all of the grant agreements, we found that some grants were not recorded and/or were misclassified. For example, the county did not record the Federal grants received and expended by the airport for various infrastructure and equipment in the amount of \$2,561,875 that was completed during 2002 and closed out during 2003. After it was brought to the county's attention, the amount was recorded in its entirety effective for 2003.

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

**MATERIAL WEAKNESSES** (Continued)

*Recommendation:* We recommend that one person oversee compliance with Circular A-133 requirements and maintain all Federal and State grant agreements, amendments, and financial status reports in a central location to ensure timely recording and control by those with proper authorization.

*Management Response:*

- Contact Person(s) Responsible for Correction  
Denise Koning, County Administrator
- Corrective Action Planned:  
Our contract with the Michigan Department of Treasury, as evidenced by past practice, has included the preparation of the Schedule of Expenditures of Federal Awards. This work includes accumulating data on Federal expenditures and making appropriate entries to properly record such activity. The Federal project in question has been in progress for several fiscal years. While the management structure of Otsego County has only recently changed, our contractual agreement with Michigan Department of Treasury has not. While we concur with the recommendation of managing Federal and State grants centrally, we do not believe this comment is a material weakness as the services provided by Michigan Department of Treasury provided for materially accurate reporting with respect to Federal and State grants--which is evidenced by countless past audit adjustments (meeting the definition of material as evidence by Treasury's memorandum of understanding) without such finding in past audits.
- Anticipated Completion Date  
N/A

Addendum: We appreciate the confidence of management in our services. However, our activities as auditors should only be for auditing purposes and not the accumulation or compilation of county records.

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

**OTHER REPORTABLE CONDITIONS**

Although the following are not considered material weaknesses in internal control, we wish to point out certain other reportable conditions for consideration by the management of Otsego County.

**Board of Commissioners--Fixed Assets Records**

*Finding 03-04*

*Condition:* The county has established a listing of capital assets and has adopted a policy on capitalization. The capital asset listing did not include useful lives, depreciation expense, method of depreciation, and accumulated depreciation. The 2003 additions in the capital asset report did not agree with the capital outlay accounts recorded in the general ledger.

*Criteria:* The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets, net of depreciation and related debt.

*Recommendation:* We recommend that the board of commissioners take appropriate action to complete the capital asset records. Specifically, the board might consider the following:

- 1) Have one person maintain and/or reconcile the capital asset listing to general ledger detail for acquisition and disposal of capital assets in the manner required for reporting purposes.
- 2) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.
- 3) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.
- 4) The capital assets inventory must be updated during the year and reported annually in the county's financial statements.
- 5) Depreciation expense should be computed and recorded for GASB 34 government-wide financial statements.

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

OTHER REPORTABLE CONDITIONS (Continued)

*Management Response:*

- Contact Person(s) Responsible for Correction  
Denise Koning, County Administrator
- Corrective Action Planned: None, completed.
- Anticipated Completion Date  
N/A

STATUTORY COMPLIANCE

Our review of procedures for compliance with statutory requirements disclosed the following exceptions:

General Government--Uniform Chart of Accounts

*Finding 00-01*

*Condition:* The county's chart of accounts, for the most part, complies with the Uniform Chart of Accounts established by the State of Michigan. However, we found multiple departures from the fund, activity and account numbers prescribed in the Uniform Chart of Accounts. We addressed the observed departures to county management.

*Criteria:* The Michigan Department of Treasury requires that governmental units adopt and adhere to the Uniform Chart of Accounts

*Direction:* We direct that the county conform to the Uniform Chart of Accounts.

- Contact Person(s) Responsible for Correction  
Denise Koning, County Administrator
- Corrective Action Planned:  
We have complied with this recommendation and a new chart of accounts, which adheres to the State's Uniform Chart of Accounts, was put in place at the beginning of the 2004 Fiscal Year.
- Anticipated Completion Date  
Completed



**Otsego County**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings**  
**(Continued)**

STATUTORY COMPLIANCE (Continued)

Board of Commissioners--Budget Requirements

*Finding 03-05*

*Condition:* As indicated in the notes to financial statements, the County of Otsego has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

*Criteria:* Noncompliance with PA 2 of 1968, as amended: Uniform Budgeting and Accounting Act

Fiscal year ending December 31, 2003 expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General Fund and special revenue funds are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
General Fund			
State Domestic Preparedness		\$18,177	\$ (18,177)
Motor Pool		6,559	(6,559)
Special Revenue Fund			
Housing Commission			
Community and Economic Development	\$313,976	501,059	(187,083)

*Direction:* The board of commissioners should amend the budget as needed to prevent actual expenditures from exceeding those provided for in the budget as required by Public Act 2 of 1968.

*Management Response:*

- Contact Person(s) Responsible for Correction  
Denise Koning, County Administrator
- Corrective Action Planned:  
We are in the process of establishing new policies permitting the county administrator to make line-item budget transfers.
- Anticipated Completion Date:  
N/A

**Otsego County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2003**

**Section II--Financial Statement Findings  
(Continued)**

STATUTORY COMPLIANCE (Continued)

Emergency Medical Services Board Minutes

*Finding 03-06*

*Condition:* The board minutes did not contain certain motions and actions taking by the board. Board approval for disbursements made was not noted in the minutes. The manner in which the minutes were written was not consistent with statutory requirements.

*Criteria:* The minutes of the board shall include a record of all proceeding of the board to include all resolutions and decisions for all questions presented to the board. (MCL 15.269)

*Direction:* We direct that the minutes include all actions taken by the board. Further, that the check number sequence and dollar amount for vendor payments should be included in the minutes as approved.

*Management Response:*

- Contact Person(s) Responsible for Correction  
Jon Deming, Chief/Manager
- Corrective Action Planned:  
Minutes will include all action of the board. A total of bills and check numbers used will be recorded.
- Anticipated Completion Date:  
Immediately.

**Section III--Federal Award Findings and Questioned Costs**

No matters were reported.



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

June 26, 2004

County Board of Commissioners  
Otsego County Courthouse  
225 West Main Street  
Gaylord, Michigan 49735

RE: Report on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Otsego County, Michigan, as of and for the year ended December 31, 2003, which collectively comprise the county's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Otsego County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Commission on Aging (special revenue fund type) which represents .86 percent and 5.86 percent, respectively, of the assets and revenues of the governmental funds. We did not audit the financial statements of the Road Commission (special revenue discretely presented component unit) which represents 90.78 percent and 65.38 percent, respectively, of the assets and revenues of the component units. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Commission on Aging and Road Commission, is based solely on the reports of other auditors.

As described in Note Q, the county adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of January 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Compliance--As part of obtaining reasonable assurance about whether Otsego County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards; however, we did note other instances of noncompliance described in the accompanying Schedule of Findings and Questioned Costs as items 00-01, 03-05 and 03-06.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Otsego County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Otsego County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-01, 03-01 through 03-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe findings 03-01, 03-02 and 03-03 of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

June 26, 2004

County Board of Commissioners  
Otsego County Courthouse  
225 West Main Street  
Gaylord, Michigan 49735

RE: Report on Compliance with Requirements Applicable to Each Major Program and  
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance--We have audited the compliance of Otsego County with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended December 31, 2003. Otsego County's major Federal programs are identified in the summary of auditor's result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Otsego County's management. Our responsibility is to express an opinion on Otsego County's compliance based on our audit.

Otsego County's financial statements include the operations of the Otsego County Commission on Aging (special revenue fund), which received \$172,606 in Federal awards and is not included in the schedule for the 2003 year audit. Our audit, described below, did not include the operations of the Otsego County Commission on Aging because other auditors were engaged to perform an audit in accordance with OMB Circular A-133, if applicable. The Otsego County Road Commission (special revenue component unit), which received and expended \$757,073 in Federal Awards, is not included in the schedule for the year ended December 31, 2003 because it is included in the State's single audit. There were no Federal force account projects that are required to be audited for compliance under the Single Audit Act through the road commission procurement.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements, referred to above, that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Otsego County's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Otsego County's compliance with those requirements.

In our opinion, Otsego County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2003.

Internal Control Over Compliance--The management of Otsego County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Otsego County's internal control over compliance (with requirements that could have a direct and material effect on a major Federal program) in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of board of commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division